

Estimate change

TP change

Rating change



Bloomberg	LAURUS IN
Equity Shares (m)	539
M.Cap.(INRb)/(USD\$b)	233.9 / 2.8
52-Week Range (INR)	485 / 328
1, 6, 12 Rel. Per (%)	-1/0/1
12M Avg Val (INR M)	958

Financials & valuations (INR b)

Y/E MARCH	FY24	FY25E	FY26E
Sales	50.4	58.1	68.3
EBITDA	7.8	11.2	14.9
Adj. PAT	1.6	3.9	6.9
EBIT Margin (%)	7.8	12.1	16.1
Cons. Adj. EPS (INR)	3.0	7.2	12.9
EPS Gr. (%)	-79.6	139.9	78.2
BV/Sh. (INR)	76.4	82.5	93.4
Ratios			
Net D:E	0.6	0.5	0.5
RoE (%)	4.0	9.1	14.7
RoCE (%)	4.6	8.0	11.5
Payout (%)	15.6	15.6	15.6
Valuations			
P/E (x)	144.9	60.4	33.9
EV/EBITDA (x)	33.5	23.1	17.5
Div. Yield (%)	0.1	0.2	0.4
FCF Yield (%)	-0.4	1.4	0.6
EV/Sales (x)	5.2	4.5	3.8

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	27.2	27.2	27.2
DII	13.6	11.8	10.4
FII	25.7	26.0	22.5
Others	33.6	35.1	39.9

FII includes depository receipts

CMP: INR437

TP: INR505 (+16%)

Buy

Lower ARV formulations and reduced operating leverage hurt earnings

- Laurus Labs (LAURUS) posted a weak 1QFY25 due to deviation in buying of ARV formulations and deferral of some orders in the other API segment. Lower raw material costs led to a sharp improvement in gross margin (450bp YoY/530bp QoQ), offsetting the adverse impact of lower revenue in 1Q.
- We cut our earnings estimates by 8% each for FY25/FY26 factoring in: a) lower off-take of ARV products, b) a gradual uptick in the CDMO segment, and c) a front-loading of opex related to expanded/new facilities. We value LAURUS at 31x 12M forward earnings to arrive at our TP of INR505.
- LAURUS continues to implement efforts towards the CDMO capex (chemical synthesis for human drugs/animal health/crop science). Considering that exhibit/validation batches are underway, we expect commercial batches to commence over the medium term. Accordingly, the operating leverage would improve with the scaling up of batches from 2HFY25. The customer funding to the formulation facility for higher off-take further provides confidence on its efficient manufacturing capabilities. **Reiterate BUY.**

Gross margin benefit offset by reduced operating leverage

- LAURUS' 1QFY25 revenue was largely flat YoY at INR11.9b (our est. INR14.3b). Synthesis business (18% of sales) was down 11% YoY to INR2.1b. FDF sales declined 4% YoY to INR2.7b (23% of sales), affected by lower ARV volumes (down 20% YoY). This offset the healthy growth in the Developed market portfolio (+25% YoY). API sales (56% of sales) rose 11% YoY to INR6.6b. The Onco-API sales surged 2.2x YoY to INR2.1b. The other API segment sales grew 6% YoY to INR1.5b. The ARV API sales dipped 2% YoY to INR4b. The Bio division sales (3% of sales) declined 14% YoY to INR430m.
- The gross margin (GM) expanded 450bp YoY to 55.1%, due to a change in segmental mix.
- However, EBITDA margin expanded at a lower rate of ~20bp YoY to 14.3% (our est: 15.6%) due to reduced operating leverage (other expenses/employee costs up 320bp/100p YoY as a % of sales).
- EBITDA grew 2.7% YoY to INR1.7b (vs. our est. INR2.2b).
- PAT declined at a higher rate of 52.7% YoY to INR127m (our est: INR692m) on account of higher depreciation/interest expenses/ tax rate.

Highlights from the management commentary

- LAURUS maintained its outlook for FY25. It is implementing efforts to deliver medium-to-long term contracts and commercial opportunities in the late-phase NCE projects along with EBITDA margin improvement.
- LAURUS indicated ARV business to be INR25b for FY25.
- Gross margin expansion for the quarter on a YoY/QoQ basis was due to a reduction in ARV-API raw material prices and process improvement.

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

Akash Manish Dobhada - Research Analyst (Akash.Dobhada@MotilalOswal.com)

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Consolidated - Quarterly Earnings

(INR b)

Y/E Mar (INR b)	FY24				FY25E				FY24	FY25E	FY25E	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE		
Net Sales	11.8	12.2	11.9	14.4	11.9	13.1	14.8	18.2	50.4	58.1	14.3	-16.4
YoY Change (%)	-23.2	-22.3	-22.6	4.3	1.1	7.2	23.9	26.7	-16.6	15.3	21.0	
Total Expenditure	10.2	10.4	10.1	12.0	10.2	10.9	11.9	13.9	42.6	46.9	12.1	
EBITDA	1.7	1.9	1.8	2.4	1.7	2.2	2.9	4.4	7.8	11.2	2.2	-23.3
YoY Change (%)	-63.3	-58.1	-55.0	-15.4	2.7	17.4	62.4	80.3	-51.2	44.3	33.8	
Margins (%)	14.1	15.3	15.2	16.8	14.3	16.8	19.9	23.9	15.4	19.3	15.6	
Depreciation	0.9	0.9	1.0	1.0	1.1	1.1	1.0	1.0	3.8	4.2	0.9	
EBIT	0.8	0.9	0.8	1.4	0.7	1.1	1.9	3.3	3.9	7.0	1.3	-50.7
YoY Change (%)	-80.1	-74.3	-74.0	-29.9	-14.5	20.7	129.6	139.2	-69.0	78.9	73.4	
Margins (%)	6.4	7.7	6.9	9.7	5.5	8.7	12.9	18.3	7.8	12.1	9.2	
Interest	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	1.8	2.1	0.5	
Other Income	0.0	0.0	0.0	0.2	0.0	0.1	0.1	0.1	0.3	0.3	0.1	
PBT before EO expense	0.4	0.5	0.3	1.1	0.2	0.7	1.5	2.9	2.4	5.3	0.9	-79.7
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	0.4	0.5	0.3	1.1	0.2	0.7	1.5	2.9	2.4	5.3	0.9	-79.7
Tax	0.1	0.1	0.1	0.3	0.1	0.2	0.4	0.7	0.7	1.3	0.2	
Rate (%)	30.0	27.0	27.3	29.8	33.9	24.6	24.8	24.3	28.8	24.8	24.0	
Reported PAT	0.3	0.4	0.2	0.8	0.1	0.5	1.1	2.2	1.6	3.9	0.7	-81.7
Adj PAT	0.3	0.4	0.2	0.8	0.1	0.5	1.1	2.2	1.6	3.9	0.7	-81.7
YoY Change (%)	-89.4	-84.2	-88.6	-28.1	-52.7	38.3	371.6	187.0	-79.6	139.9	158.4	
Margins (%)	2.3	3.0	1.9	5.3	1.1	3.9	7.4	11.9	3.2	6.7	4.8	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

(INR b)

Y/E March	FY24				FY25E				FY24	FY25E	FY25E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE	
API	6.0	6.3	5.7	7.5	6.6	7.0	7.0	7.3	25.5	27.9	6.7
YoY Change (%)	2.4	(7.5)	(9.2)	4.3	11.2	11.3	21.8	(2.2)	(2.5)	9.7	12.3
Custom Synthesis	2.5	2.2	2.1	2.4	2.1	2.7	3.2	4.4	9.2	12.4	2.7
YoY Change (%)	(56.7)	(68.9)	(67.0)	3.5	(14.4)	20.0	52.0	86.3	(57.5)	35.0	8.0
Formulation	2.9	3.3	3.7	4.3	2.7	3.0	4.1	6.0	14.1	15.8	4.5
YoY Change (%)	(18.3)	122.8	47.4	9.4	(3.9)	(10.0)	12.0	39.5	24.0	12.0	57.0
Cost Break-up											
RM Cost (% of Sales)	49.4	47.5	45.6	50.2	44.9	48.0	47.0	46.0	48.3	46.5	50.1
Staff Cost (% of Sales)	13.5	13.4	13.0	11.2	14.6	12.4	11.2	10.7	12.7	12.0	11.8
R&D Expenses(% of Sales)	4.1	4.7	3.6	4.5	4.1	4.4	2.9	3.6	3.4	2.9	3.4
Other Cost (% of Sales)	22.9	23.8	26.2	21.9	26.2	22.8	21.9	19.4	23.6	22.2	22.5
Gross Margins (%)	50.6	52.5	54.4	49.8	55.1	52.0	53.0	54.0	51.7	53.5	49.9
EBITDA Margin (%)	14.1	15.3	15.2	16.8	14.3	16.8	19.9	23.9	15.4	19.3	15.6
EBIT Margin (%)	6.4	7.7	6.9	9.7	5.5	8.7	12.9	18.3	7.8	12.1	9.2

E: MOFSL Estimates



Other highlights from the management commentary

- From the current net debt:EBITDA of 3.3x, LAURUS intends to lower it to 2.5x by Mar'25.
- Capex of INR18-INR20b would be incurred over the next two years. The majority would be towards the CDMO/FDF segments. This also comprises the capex that would be funded by its customer.
- LAURUS has completed validation batches for certain Onco-APIs and await regulatory approval to start commercial supplies.
- It would be investing INR2b for setting up a large-scale commercial fermentation facility and it would be operational from Jun'26.

- LAURUS would be expanding its tablets manufacturing facility at Unit 2 (funded by the customer) for generic formulations.
- The Animal Health API block 1/2 is operational and capex has been incurred in the drug substance facility (block- 3/4).
- The second GMP CAR-T facility building is on track, which would be operational from the middle of the next year, while 28,000sft GLP lab (Vectors/Gene products) Phase 1 is likely to be delivered by the end of FY25.

Key exhibits

Exhibit 1: Revenue grew 1.1% YoY in 1QFY25

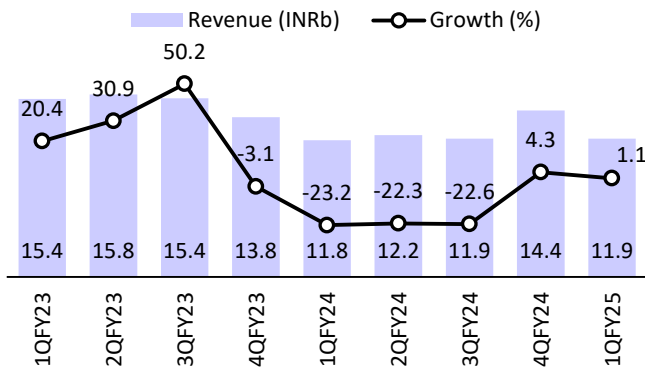


Exhibit 2: Share of ARV-API sales stood at 33% in 1QFY25

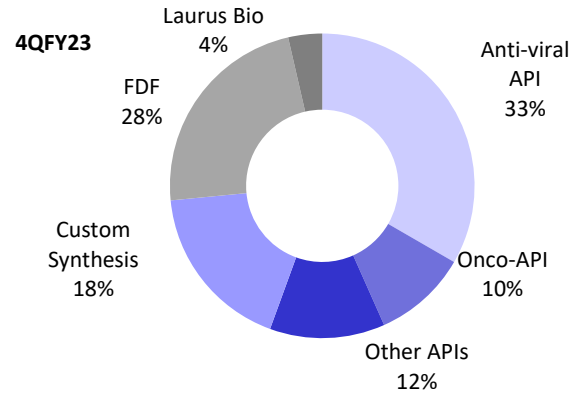


Exhibit 3: API sales grew 11% YoY

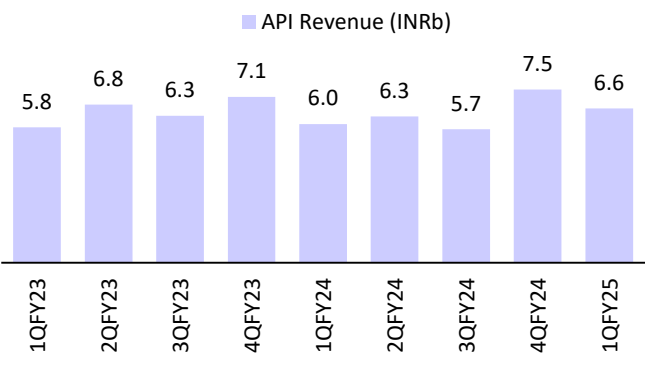


Exhibit 4: ARV-API sales declined 2% YoY in 1QFY25

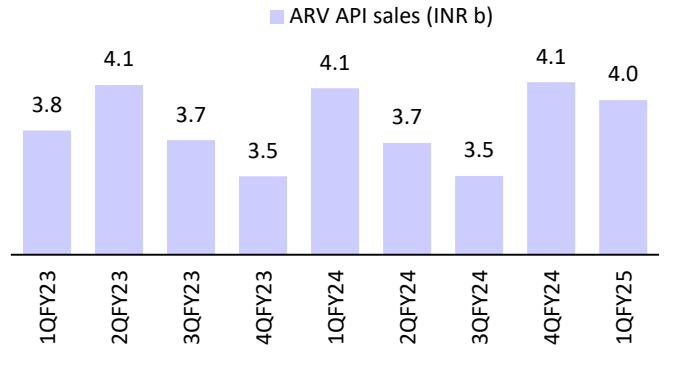
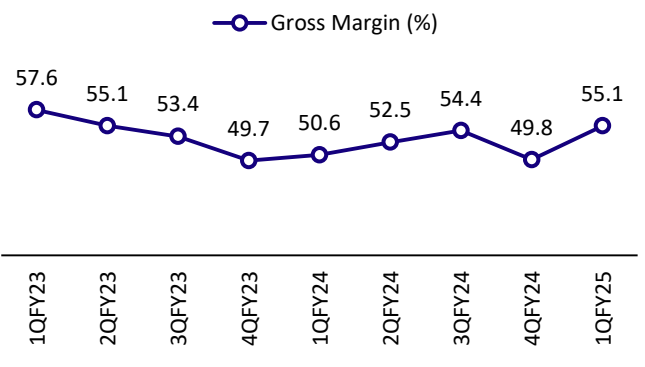
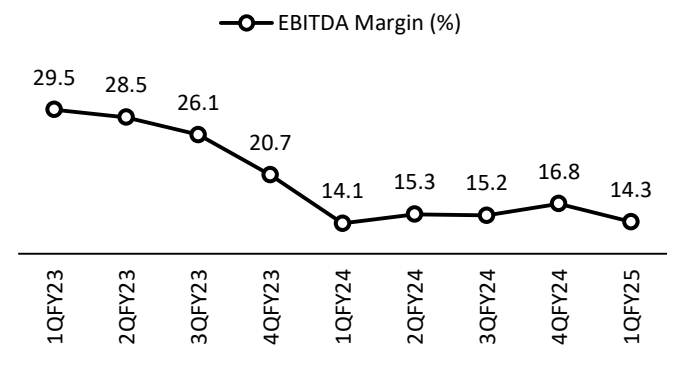


Exhibit 5: Gross margin expanded 450bp YoY in 1QFY25



Source: MOFSL, Company

Exhibit 6: EBITDA margin expanded ~20bp YoY



Source: MOFSL, Company

Capex benefit to accrue from 2HFY25 onwards

Capacity build-up for animal health/crop protection/CDMO to drive benefits over the long term

- In 1QFY25, CDMO sales declined 14% YoY to INR9.2b. This was partly led by significant resource allocation towards delivering multiple high-value complex programs in early/mid/late phases.
- However, LAURUS expects that CDMO business to witness recovery in 2HFY25 led by scheduled deliveries of key late phase NCE projects and a healthy flow of new order books from big pharma/biotech companies.
- LAURUS is ramping up its animal health facility, with a new unit coming on stream next quarter. Currently, it has started commercial validation of the animal health products, and it expects to validate about four products in FY25.
- The crop science unit/fermentation unit is under construction, and expects to commercialize by the end of FY25. The commercial benefit would start from FY26 onwards.
- We expect the CDMO business to register 35% CAGR over FY24-26 to INR16.8b.

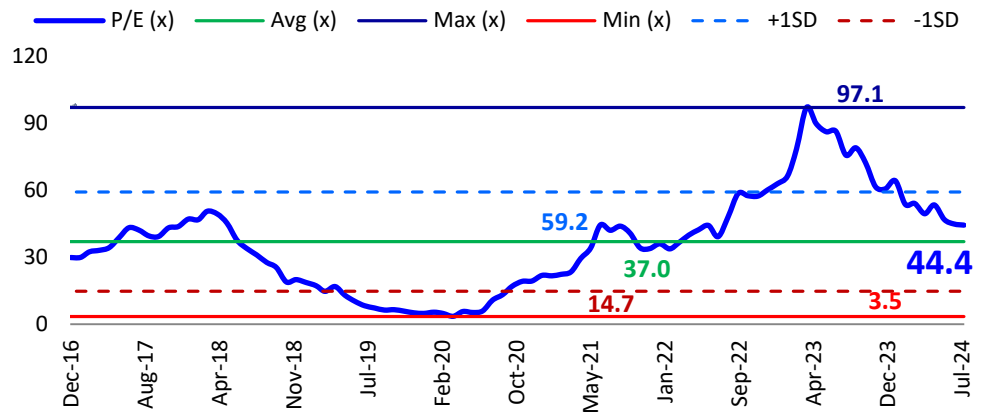
Expanding reach/optimization of capacities to drive API/FDF growth

- In 1QFY25, LAURUS' sales declined 4% YoY INR5.5b in ARV formulations due to lower volume offtake in ARV business. The ARV-API segment declined by 2% in 1QFY25 due to the lower realizations.
- In 1QFY25, the non-ARV FDF sales grew 24% YoY, led by improved volumes and new launches.
- Further, on the non-ARV-API front, LAURUS posted a growth of 39% in 1QFY25 due to strong demand, offset by transitional shipment impact/subdued pricing.
- LAURUS is also building a new capacity of 3b tablets for its key customer in the generic product segment, which would be commercialized in FY27. In addition, it is expanding lines on granulation and formulation packaging, which would be completed over the next 12-18 months.
- The company has signed a JV agreement with KRKA, which would enable LAURUS to expand its reach to the new markets and to take synergistic benefit from the marketing reach of KRKA to strengthen the US portfolio further.
- Accordingly, we expect the non-ARV segment (FDF and API) sales to register a CAGR of 26% over FY24-26 to reach INR23b.

Reiterate BUY

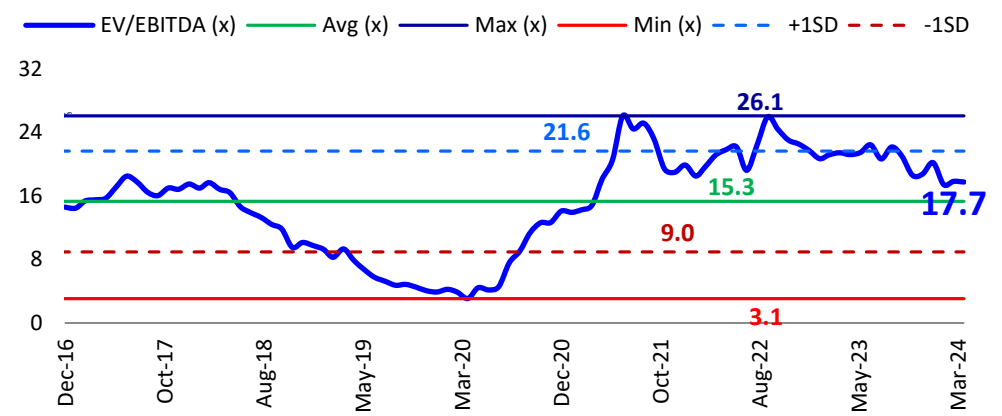
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- LAURUS continues to implement efforts towards the CDMO capex (chemical synthesis for human drugs/animal health/crop science). Considering that exhibit/validation batches are underway, we expect commercial batches to commence over the medium term. Accordingly, the operating leverage would improve with the scaling up of batches from 2HFY25. The customer funding to the formulation facility for higher off-take further provides confidence on its efficient manufacturing capabilities. **Reiterate BUY.**

Exhibit 7: P/E chart



Source: MOFSL, Company, Bloomberg

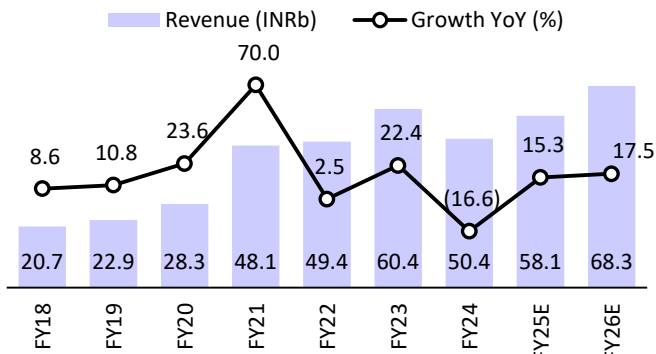
Exhibit 8: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

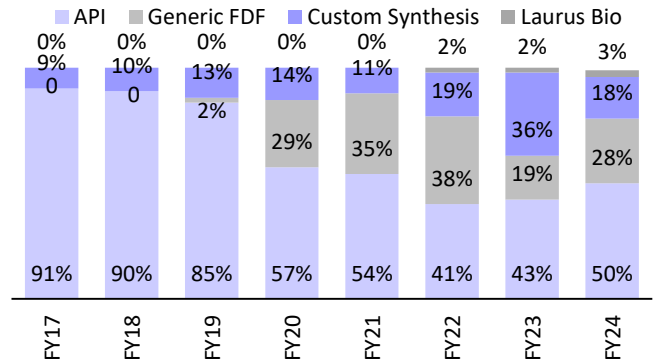
Story in charts

Exhibit 9: To post a sales CAGR of 16% over FY24-26



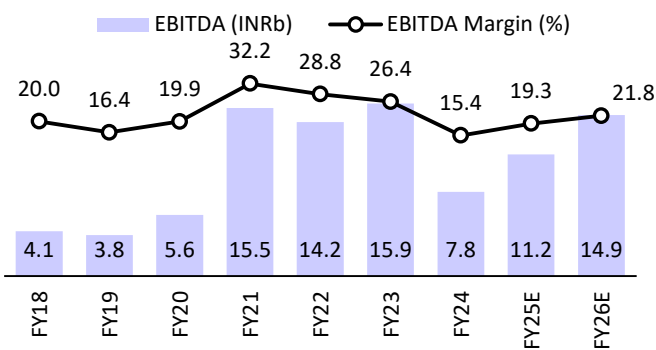
Source: MOFSL, Company

Exhibit 10: Diversified revenue mix



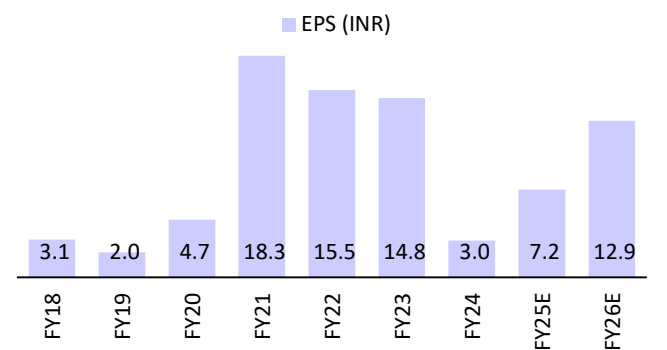
Source: MOFSL, Company

Exhibit 11: EBITDA CAGR to be 38% over FY24-26



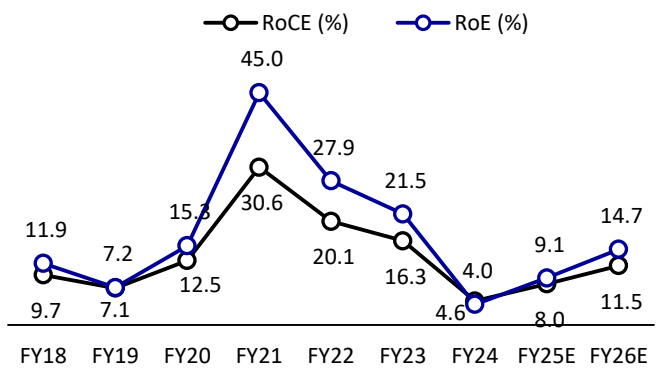
Source: MOFSL, Company

Exhibit 12: Expect strong EPS trajectory over FY24-26



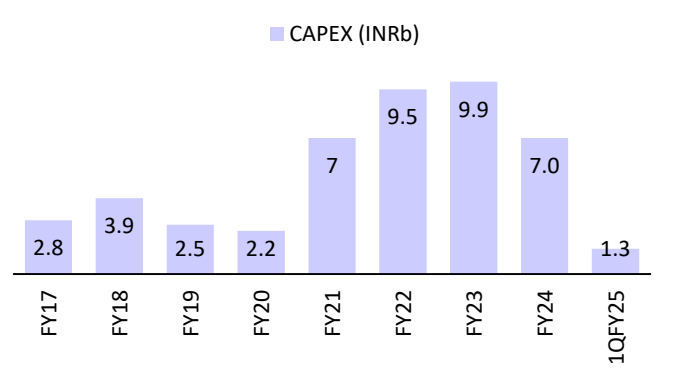
Source: MOFSL, Company

Exhibit 13: Return ratios to bottom out in FY24



Source: MOFSL, Company

Exhibit 14: Significant investments in capex since FY21



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement								(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	22,919	28,317	48,135	49,356	60,406	50,408	58,120	68,270
Change (%)	10.8	23.6	70.0	2.5	22.4	-16.6	15.3	17.5
Total Expenditure	19,155	22,672	32,628	35,131	44,483	42,633	46,903	53,387
% of Sales	83.6	80.1	67.8	71.2	73.6	84.6	80.7	78.2
EBITDA	3,764	5,645	15,507	14,224	15,923	7,775	11,217	14,883
Margin (%)	16.4	19.9	32.2	28.8	26.4	15.4	19.3	21.8
Depreciation	1,642	1,873	2,051	2,515	3,241	3,846	4,189	3,914
EBIT	2,122	3,773	13,456	11,709	12,682	3,929	7,028	10,968
Int. and Finance Charges	882	896	682	1,024	1,652	1,829	2,057	2,015
Other Income	162	59	237	153	60	263	291	341
PBT bef. EO Exp.	1,402	2,936	13,011	10,839	11,090	2,364	5,262	9,295
EO Items	-204	0	0	0	0	0	0	0
PBT after EO Exp.	1,198	2,936	13,011	10,839	11,090	2,364	5,262	9,295
Total Tax	260	383	3,173	2,514	3,123	684	1,305	2,287
Tax Rate (%)	21.7	13.1	24.4	23.2	28.2	28.9	24.8	24.6
Minority Interest	0	0	0	2	32	55	58	61
Reported PAT	938	2,553	9,838	8,322	7,965	1,625	3,899	6,947
Adjusted PAT	1,097	2,553	9,838	8,322	7,965	1,625	3,899	6,947
Change (%)	-34.5	132.6	285.4	-15.4	-4.3	-79.6	139.9	78.2
Margin (%)	4.8	9.0	20.4	16.9	13.2	3.2	6.7	10.2

Consolidated - Balance Sheet								(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	1,064	1,069	1,073	1,075	1,077	1,077	1,077	1,077
Total Reserves	14,520	16,629	24,902	32,437	39,298	40,032	43,322	49,184
minority interest			32	79	111	46	46	46
Net Worth	15,584	17,698	26,007	33,591	40,487	41,155	44,445	50,308
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	10,030	10,123	13,871	17,320	21,006	26,115	26,615	27,115
Deferred Tax Liabilities	-534	-739	192	691	825	570	570	570
Capital Employed	25,081	27,081	40,070	51,602	62,317	67,842	71,631	77,993
Gross Block	20,976	23,821	27,949	35,283	46,085	54,745	61,627	68,854
Less: Accum. Deprn.	4,783	6,655	8,706	11,221	14,462	18,308	22,497	26,411
Net Fixed Assets	16,193	17,166	19,243	24,062	31,623	36,437	39,130	42,443
Goodwill on Consolidation	97	97	2,463	2,463	2,463	2,463	2,463	2,463
Capital WIP	1,096	672	3,622	8,132	5,508	4,228	4,346	4,619
Total Investments	34	34	34	308	993	1,714	1,714	1,714
Curr. Assets, Loans&Adv.	15,357	18,589	32,145	34,715	36,017	39,028	40,362	44,612
Inventory	6,819	9,052	15,755	17,603	16,848	18,454	17,605	20,331
Account Receivables	7,099	7,914	13,061	13,542	15,804	16,629	17,197	19,078
Cash and Bank Balance	30	17	485	759	485	1,417	2,645	1,778
Loans and Advances	1,408	1,605	2,845	2,811	2,880	2,528	2,915	3,424
Curr. Liability & Prov.	7,697	9,477	17,437	18,079	14,287	16,029	16,383	17,856
Account Payables	4,883	6,156	11,787	8,764	7,107	10,512	10,023	10,385
Other Current Liabilities	2,449	2,753	4,894	7,753	6,165	4,334	4,997	5,869
Provisions	365	568	757	1,562	1,016	1,183	1,364	1,602
Net Current Assets	7,660	9,112	14,708	16,637	21,730	22,999	23,979	26,756
Appl. of Funds	25,081	27,081	40,070	51,602	62,317	67,842	71,631	77,994

E: MOFSL Estimates

Financials and valuations

Ratios								
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	2.0	4.7	18.3	15.5	14.8	3.0	7.2	12.9
Cash EPS	5.1	8.2	22.1	20.1	20.8	10.2	15.0	20.2
BV/Share	28.9	32.9	48.3	62.4	75.2	76.4	82.5	93.4
DPS	0.3	0.6	2.0	2.0	1.9	0.4	0.9	1.7
Payout (%)	20.4	15.1	13.1	15.6	15.6	15.6	15.6	15.6
Valuation (x)								
P/E	214.5	92.2	23.9	28.3	29.6	144.9	60.4	33.9
Cash P/E	85.9	53.2	19.8	21.7	21.0	43.0	29.1	21.7
P/BV	15.1	13.3	9.1	7.0	5.8	5.7	5.3	4.7
EV/Sales	10.7	8.7	5.2	5.1	4.2	5.2	4.5	3.8
EV/EBITDA	65.2	43.5	16.0	17.7	16.1	33.5	23.1	17.5
Dividend Yield (%)	0.1	0.1	0.5	0.5	0.4	0.1	0.2	0.4
FCF per share	0.7	2.0	0.9	0.6	0.1	-1.6	5.9	2.7
Return Ratios (%)								
RoE	7.2	15.3	45.0	27.9	21.5	4.0	9.1	14.7
RoCE	7.1	12.5	30.6	20.1	16.3	4.6	8.0	11.5
RoIC	7.2	13.0	32.7	23.0	18.6	4.8	8.6	12.5
Working Capital Ratios								
Fixed Asset Turnover (x)	1.1	1.2	1.7	1.4	1.3	0.9	0.9	1.0
Asset Turnover (x)	0.9	1.0	1.2	1.0	1.0	0.7	0.8	0.9
Inventory (Days)	109	117	119	130	102	134	111	109
Debtor (Days)	113	102	99	100	95	120	108	102
Creditor (Days)	78	79	89	65	43	76	63	56
Leverage Ratio (x)								
Current Ratio	2.0	2.0	1.8	1.9	2.5	2.4	2.5	2.5
Interest Cover Ratio	2.4	4.2	19.7	11.4	7.7	2.1	3.4	5.4
Net Debt/Equity	0.6	0.6	0.5	0.5	0.5	0.6	0.5	0.5

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	1,198	2,936	13,011	10,839	11,089	2,364	5,262	9,295
Depreciation	1,642	1,873	2,051	2,515	3,241	3,846	4,189	3,914
Interest & Finance Charges	720	837	579	862	1,455	1,750	1,766	1,674
Direct Taxes Paid	-260	-383	-2,285	-1,823	-2,855	-1,046	-1,305	-2,287
(Inc)/Dec in WC	-187	-1,465	-5,941	-3,416	-3,153	-332	249	-3,644
CF from Operations	3,113	3,797	7,415	8,977	9,778	6,581	10,162	8,952
Others	-136	-323	-85	135	161	33	0	0
CF from Operating incl EO	2,977	3,474	7,330	9,111	9,939	6,615	10,162	8,952
(Inc)/Dec in FA	-2,589	-2,421	-6,839	-8,767	-9,875	-7,476	-7,000	-7,500
Free Cash Flow	387	1,053	491	344	64	-862	3,162	1,452
(Pur)/Sale of Investments	0	0	-2,584	-393	-223	-800	0	0
Others	60	210	13	17	137	52	291	341
CF from Investments	-2,529	-2,211	-9,410	-9,143	-9,961	-8,224	-6,709	-7,159
Issue of Shares	4	5	74	43	74	26	0	0
Inc/(Dec) in Debt	429	139	3,804	1,968	2,138	5,078	500	500
Interest Paid	-882	-896	-580	-850	-1,404	-1,743	-2,057	-2,015
Dividend Paid	-191	-384	-750	-859	-1,075	-862	-609	-1,085
Others	193	-140	0	5	13	43	-58	-61
CF from Fin. Activity	-448	-1,277	2,547	307	-253	2,541	-2,223	-2,661
Inc/Dec of Cash	0	-14	467	275	-275	932	1,229	-867
Opening Balance	29	28	15	483	757	482	1,415	2,646
Closing balance	28	15	483	757	482	1,415	2,646	1,781
Bank balance	2	2	2	2	2	1	-1	-3
Total Cash and Cash equivalent	30	17	485	759	485	1,417	2,645	1,778

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SELL	< - 10%
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UNDER REVIEW	Rating may undergo a change
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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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