

Laurus Labs Q2FY25 results were below our estimates, the company reported a top-line of INR 12,237mn (flat YoY and +2.4.0% QoQ) driven by sustained demand in the CDMO business. EBITDA was reported at INR 1,783mn (-5.1% YoY and +4.2% QoQ) and margin at 14.6% showing a marginal decline of 77bps YoY and marginal improvement of 25bps sequentially. The margin was impacted due to lower asset utilization and dilution from the growth projects. The company is prioritizing efforts to improve its operating margins in the H2FY25, driven by better asset utilization.

- **API business:** The revenues from the API business reported was INR 5,570mn, with a de-growth of 11.4% YoY and 16.1% QoQ, impacted due to pricing pressure on the generic API, lower demand in the oncology portfolio and a decline in the ARV volume. The company is working towards expanding CMO engagement and improving cost efficiency. The main goal is to offset the portfolio's pricing challenges for APIs and with the help of a few strategic portfolio initiatives, it will drive the segmental growth.
- **CDMO Synthesis business:** The segment reported revenue of INR 2,990mn, with a growth of 33.5% YoY and 39.7% QoQ, driven by ongoing advanced clinical projects. H2FY25 is expected to be much better than H1FY25, supported by large CDMO opportunities, which will also improve the consolidated margin profile of the company.
- **Formulation business:** The segment reported a revenue of INR 3,280mn, with a de-growth of 1.2% YoY and growth of 19.7% QoQ, driven by the sequential uptick in the volume of ARV. The company expects to see the benefit of recent approvals in the coming quarters.
- **Laurus Bio business:** The Bio segment's reported revenue of INR 400mn with a marginal improvement of 1.3% YoY and a decline of 7% QoQ. During the quarter, the company experienced an increase in customer base, which will strengthen the diversified CDMO customer base.
- **Margin profile:** The gross margin saw a growth of 265bps YoY and flat on QoQ to 55.2% due to a change in product mix. EBITDA margin at 14.6% (-77bps YoY / +25bps QoQ) due to lower asset utilization and dilution from growth projects. Going forward, the management is confident of maintain its Gross margin and achieving a 20% EBITDA margin in FY25, supported by a better product mix and better utilization of assets.
- **Outlook & Valuation:** Laurus is confident that its performance will improve in H2FY25, which will be supported by a change in the product mix which is directed towards the CDMO business and will drive the margin profile to 20% in FY25. We have introduced FY27E and expects Revenue/EBITDA/PAT to grow at a CAGR of 15.3%/33.3%/81% respectively over FY24-FY27E. We value the stock at 34x Sep-FY27E EPS to arrive at a target price of **INR 531** with an **BUY** rating on the stock.

Financial Snapshot

Year end: March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR Mn.)	49,356	60,406	50,411	56,943	66,635	77,239
Gross Profit (INR Mn.)	27,418	32,662	26,087	30,112	36,116	42,354
EBITDA (INR Mn.)	14,224	15,922	7,778	11,036	15,060	18,410
EBITDA Margin (%)	28.8	26.4	15.4	19.4	22.6	23.8
EPS (INR)	15.5	14.7	3.0	7.4	13.3	17.9

Source: Company, CEBPL

Oct 25, 2024

CMP (Rs)	450
Target Price (Rs)	531
Potential (%)	18

Company Info

BB Code	LAURUS IN EQUITY
ISIN	INE947Q01028
Face Value (Rs.)	2.0
52 Week High (Rs.)	518
52 Week Low (Rs.)	350
Mkt Cap (Rs bn.)	240
Mkt Cap (\$ bn.)	2.8
Shares o/s (Mn.)/F.Float (%)	539.2/73
TTM EPS (Rs)	2.43
FY27E EPS (Rs)	17.9

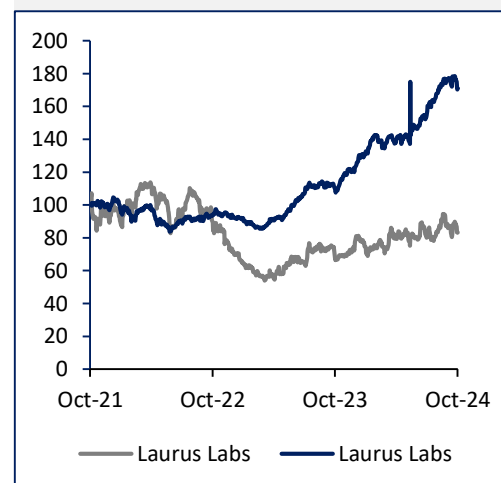
Shareholding Pattern (%)

	Sep-24	Jun-24	Mar-24
Promoters	27.18	27.18	27.18
FII's	26.08	25.67	25.98
DII's	13.05	13.56	11.78
Public	33.69	33.59	35.07

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE Healthcare	71.1	82.5	56.0
Laurus	-16.9	-7.0	23.3

Rebased Price Performance



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Quarterly performance

Particulars (Rs. In Mn.)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Revenue	12,240	12,245	(0.0)	11,949	2.4
Cost of Goods Sold	5,483	5,811	(5.6)	5,369	2.1
Gross Margin (%)	55.2	52.5	266 bps	55.1	13 bps
Employee Expenses	1,787	1,639	9.0	1,740	2.7
EBITDA	1,786	1,879	(4.9)	1,712	4.3
EBITDA Margin (%)	14.6	15.3	(75) bps	14.3	27 bps
Depreciation	1,075	934	15.1	1,061	1.4
EBIT	711	945	(24.7)	651	9.2
Interest	526	424	24.1	492	7.0
PBT	231	539	(57.1)	185	25.2
Tax	51	146	(65.1)	63	(18.6)
PAT	203	393	(48.5)	127	59.7
PAT Margin (%)	1.7	3.2	(156) bps	1.1	59 bps
EPS	0.4	0.7	(45.5)	0.2	59.7

Source: Company, CEBPL

Segmental Performance

Particulars (Rs. In Mn.)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
API	5570	6290	(11.4)	6639	(16.1)
% of sales	45.5	51.4		55.6	
Formulation	3280	3320	(1.2)	2740	19.7
% of sales	26.8	27.1		22.9	
Synthesis	2990	2240	33.5	2140	39.7
% of sales	24.4	18.3		17.9	
Laurus Bio	400	395	1.3	430	(7.0)
% of sales	3.3	3.2		3.6	
Total Sales	12,240	12,245	(0.0)	11,949	2.4

Source: Company, CEBPL

CEBPL Actual vs Estimates

Rs. In Mn.	Actual	Estimates	% Change
Sales	12,240	12,683	(3.5)
EBITDA	1,786	1,910	(6.5)
EBITDA Margin (%)	14.6	15.1	-47bps
PAT	203	418	(51.6)
EPS	0.4	0.8	(51.6)

Source: Company, CEBPL

Change in estimates for FY25E & FY26E

Rs. Mn	FY25E			FY26E			FY27E
	New	Previous	Change	New	Previous	Change	New
Revenue	56,943	59,070	(3.6)	66,635	70,046	(4.9)	77,239
EBITDA	11,036	11,296	(2.3)	15,060	16,210	(7.1)	18,410
EBITDA Margin (%)	19.4	19.1	25.7bps	22.6	23.1	(54)bps	23.8
PAT	3,972	4,534	(12.4)	7,175	7,996	(10.3)	9,677
EPS (Rs.)	7.4	8.4	(12.4)	13.3	14.8	(10.3)	17.9

Source: Company, CEBPL

Management Call - Highlights

CDMO Division:

- The modest growth aligns with expectations, driven by substantial resource allocation toward delivering multiple high-value, complex programs at various clinical stages.
- Strong growth is anticipated in FY25, supported by scheduled project deliveries for late-phase clinical programs in Q4, given the industry backdrop.
- Operations at the small molecule center commenced in October 2024. This facility leverages advanced technologies enabling the company to secure early-stage projects.
- Animal health and agrochemical CDMO projects are expected to contribute to revenues in H2 FY25, with more substantial growth projected in FY26.
- Sustained demand for CDMO services is supported by operational excellence initiatives and enhanced platform capabilities at both the development and manufacturing levels.

API Division:

- There are currently over 90 active projects, with more than 70 in human health and about 20 in animal health and cow production within the generic API space.
- ARV API revenue was lower compared to the previous quarter due to required modifications in manufacturing facilities, which created a capacity shortage for some products and affected dispatches in Q2.
- The current order book for the product basket is promising, with the company maintaining a leading share in first-line HIV treatment.
- Although Laurus Labs is not licensed to produce finished formulations for Lenacapavir, management remains confident about obtaining an API license or sub-license in the future. There is a 3-5 year window to prepare for this transition without significant market disruption.

FD Division:

- The focus remains on strengthening portfolio offerings and increasing market share.
- CMO contracts will begin in Q1 FY26, with additional investments being made in manufacturing and packaging lines.

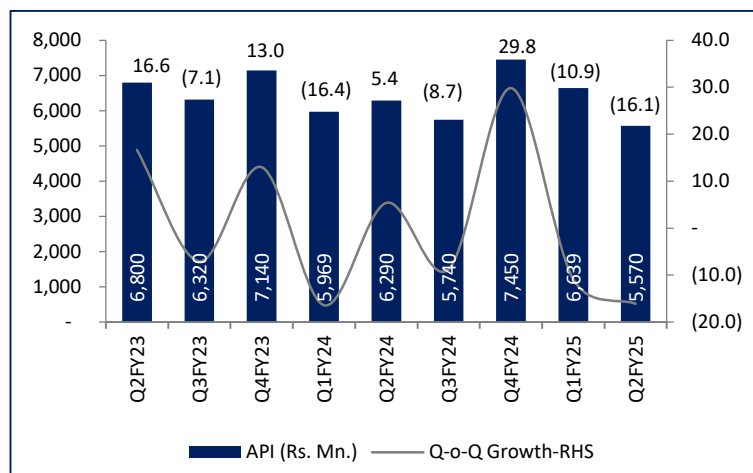
Others

- The collaboration with partner Karka is progressing smoothly, with capacity expansion on track to meet strategic needs.
- A total of 62 products are currently in the R&D pipeline, either under review or in development, with a significant addressable market size.
- The company is targeting increased market share in North America through strategic stock builds and CMO engagements, particularly within the ARV segment.
- Debt-to-EBITDA ratios are expected to improve in H2 as project deliveries increase.
- Pipeline momentum remains strong across the business, with steady progress being made in applying specialized technologies like continuous flow biocatalysis to multiple projects.
- The new R&D center at IKP Hyderabad is attracting strong interest from existing biopharma customers for early-stage process development work, which is expected to drive future growth.

Outlook:

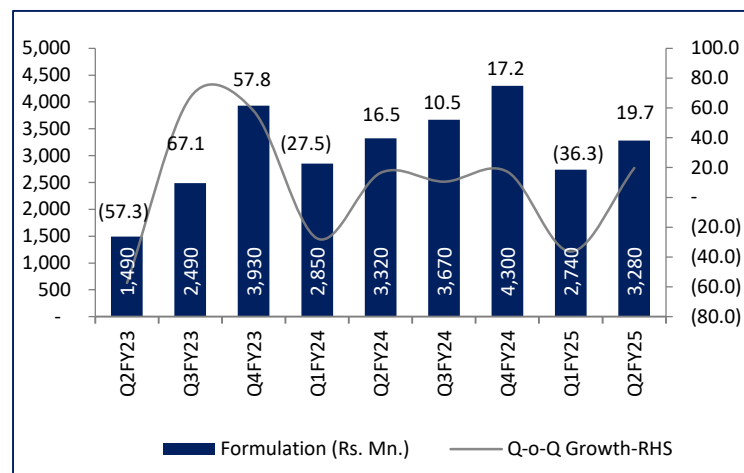
- The CDMO division is expected to be the main driver of growth in FY25.
- EBITDA margins are projected at 20% for FY25, with the company nearing the end of operating deleverage.
- The tax rate for Q2 was unusually low, but the company expects the effective tax rate to normalize around 28% for the full year.
- The company remains on track to achieve its full-year growth outlook, driven by facility ramp-ups and scheduled CDMO project deliveries in H2 FY25.

API Sales (Rs. mn) and QoQ Growth



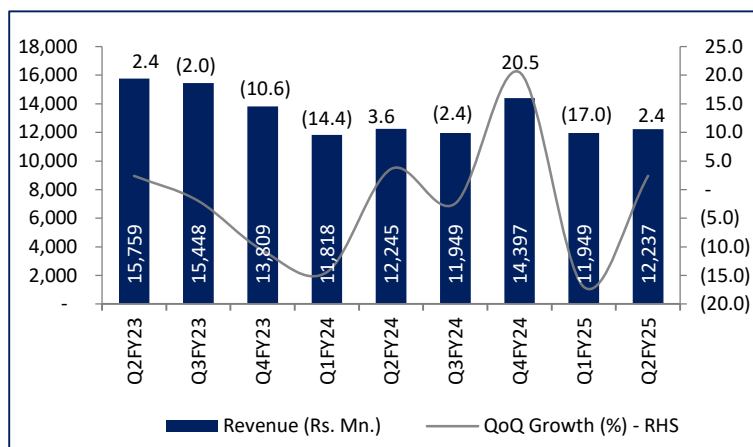
Source: Company, CEBPL

Formulation Sales (Rs. mn) and QoQ Growth



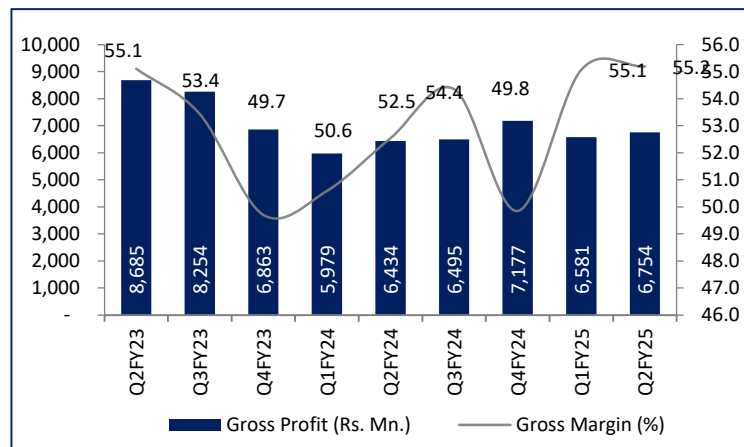
Source: Company, CEBPL

Revenue (Rs. mn) and QoQ Growth (%)



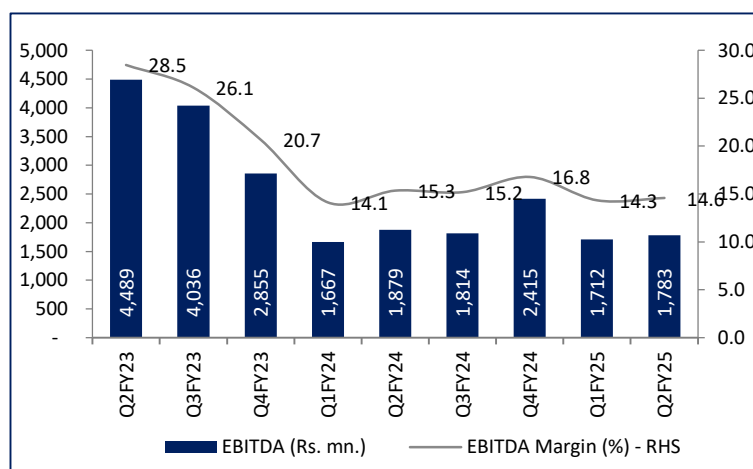
Source: Company, CEBPL

Gross Profit (Rs. mn) and Margin (%)



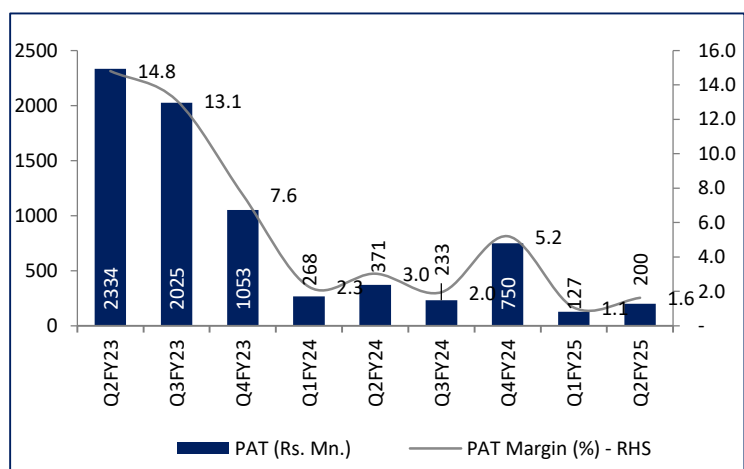
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



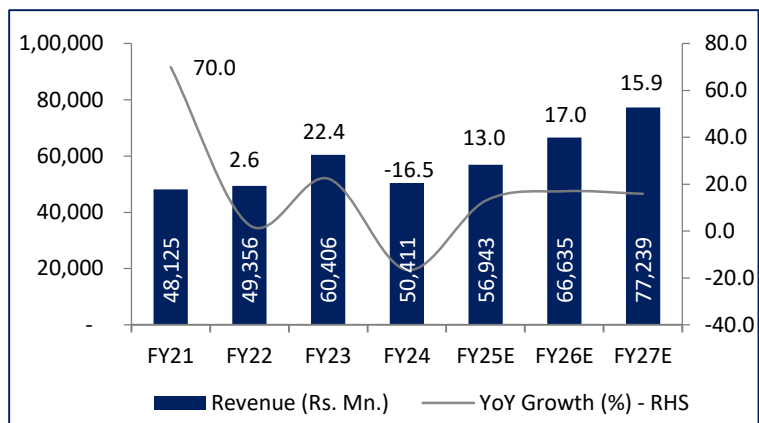
Source: Company, CEBPL

PAT (Rs. mn) and Margin (%)



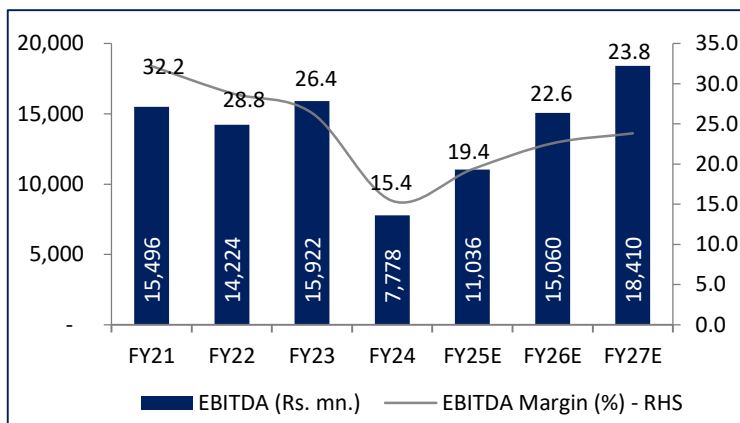
Source: Company, CEBPL

Revenue (Rs. mn) and YoY Growth (%)



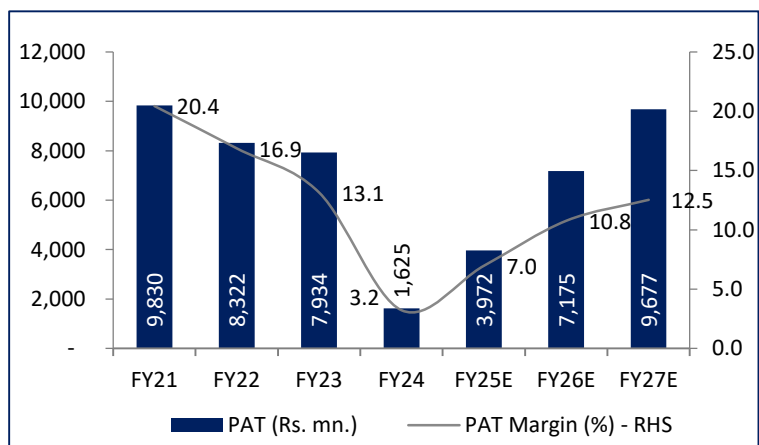
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



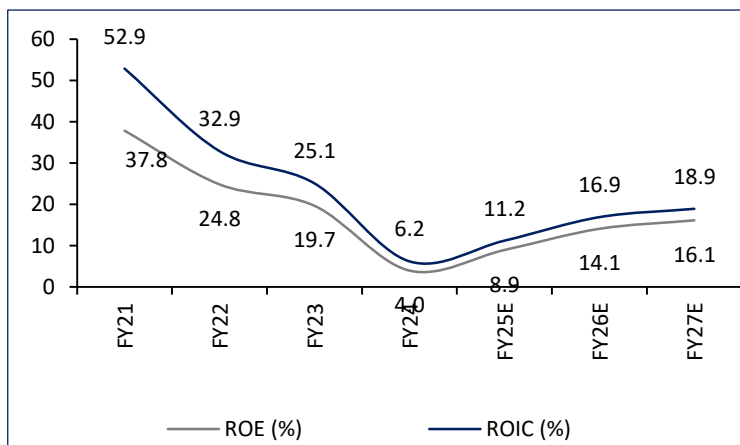
Source: Company, CEBPL

PAT (Rs. mn) and Margin (%)



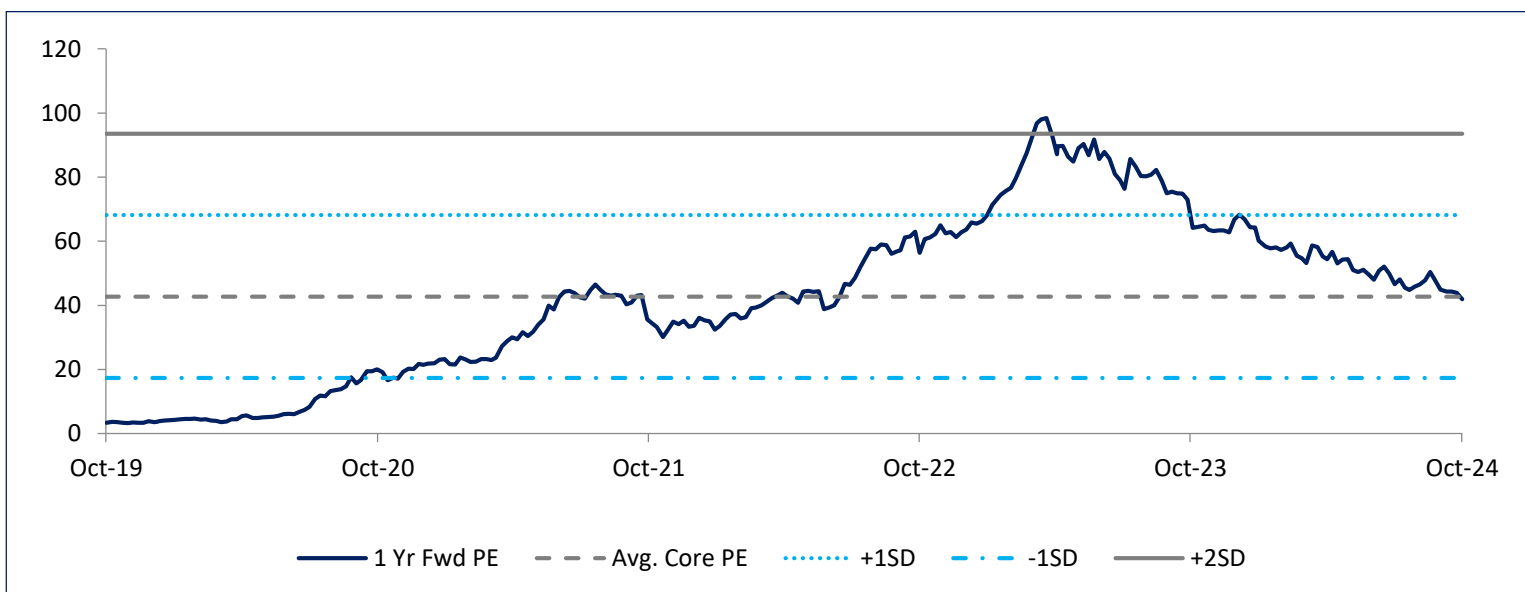
Source: Company, CEBPL

ROE (%) and ROIC (%)



Source: Company, CEBPL

1 Year Forward PE Band



Source: Company, CEBPL

Income statement (Consolidated in INR Mn.)

Particulars	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	49,356	60,406	50,412	56,943	66,635	77,239
Gross profit	27,418	32,662	26,088	30,112	36,116	42,354
EBITDA	14,224	15,922	7,779	11,036	15,060	18,410
Depreciation	2,515	3,241	3,846	3,986	4,331	4,634
EBIT	11,709	12,681	3,933	7,050	10,729	13,776
Other income	153	60	263	342	466	541
Interest expense	1,024	1,652	1,829	1,958	1,733	1,549
PBT	10,838	11,089	2,367	5,433	9,462	12,767
Reported PAT	8,322	7,934	1,626	3,972	7,175	9,677
EPS	15.5	14.7	3.0	7.4	13.3	17.9

Balance sheet (Consolidated in INR Mn.)

Particulars	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net worth	33,591	40,487	41,156	44,554	51,082	60,112
Borrowings	17,767	20,151	25,774	27,305	25,899	24,625
Trade Payables	8,764	7,107	10,512	10,921	11,866	13,755
Other non-current liabilities	2,920	3,806	2,988	3,164	3,349	3,731
Other current liabilities	6,640	5,054	3,440	3,494	4,198	4,771
Total Net Worth & liabilities	69,680	76,604	83,870	89,438	96,395	1,06,993
Net Block	22,573	30,160	34,464	37,978	41,146	43,512
Capital WIP	8,132	5,508	4,228	5,800	6,000	6,000
Goodwill & intangible assets	2,571	2,592	2,653	2,633	2,653	2,653
Investments	308	499	1,240	750	850	850
Trade Receivables	13,542	15,804	16,629	16,225	18,256	21,161
Cash & Cash equivalents	759	485	1,417	3,894	2,939	4,680
Other non-current assets	2,650	3,229	2,936	3,103	3,533	3,776
Other current assets	19,145	18,328	20,304	19,055	21,018	24,360
Total Assets	69,680	76,604	83,870	89,438	96,395	1,06,993

Cash Flows (Consolidated in INR Mn.)

Particulars	FY22	FY23	FY24	FY25E	FY26E	FY27E
Cash flows from operations	9,111	9,939	6,656	10,719	10,500	12,148
Cash flows from investing	(9,144)	(9,961)	(8,224)	(6,862)	(7,720)	(7,000)
Cash flows from financing	302	(267)	2,498	(1,350)	(3,735)	(3,407)

Source: Company, CEBPL

Growth Ratios (%)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	2.6	22.4	(16.5)	13.0	17.0	15.9
Gross Profit	3.3	19.1	(20.1)	15.4	19.9	17.3
EBITDA	(8.2)	11.9	(51.1)	41.9	36.5	22.2
EBIT	(12.9)	8.3	(69.0)	79.3	52.2	28.4
PBT	(16.6)	2.3	(78.7)	129.6	74.2	34.9
PAT	(15.3)	(4.7)	(79.5)	144.4	80.6	34.9
Margins (%)						
Gross Profit Margin	55.6	54.1	51.7	52.9	54.2	54.8
EBITDA Margin	28.8	26.4	15.4	19.4	22.6	23.8
EBIT Margin	23.7	21.0	7.8	12.4	16.1	17.8
PBT Margin	22.0	18.4	4.7	9.5	14.2	16.5
Tax rate	23.2	28.2	28.8	28.0	25.0	25.0
PAT Margin	16.9	13.1	3.2	7.0	10.8	12.5
Profitability (%)						
Return on equity (ROE)	24.8	19.7	4.0	8.9	14.1	16.1
Return on invested capital (ROIC)	32.9	25.1	6.2	11.2	16.9	18.9
Return on capital employed (ROCE)	23.0	21.1	5.9	9.9	14.0	16.4
Financial leverage (x)						
Pre-tax OCF/EBITDA	0.8	0.8	0.9	1.1	0.9	0.8
OCF / Net profit	1.1	1.3	4.1	2.7	1.5	1.3
EV/EBITDA	17.2	15.6	32.5	24.1	17.6	14.2
Earnings						
EPS	15.5	14.7	3.0	7.4	13.3	17.9
Shares outstanding	537	539	539	539	539	539
Working Capital (x)						
Inventory days	130	102	134	110	103	103
Receivable days	100	95	120	104	100	100
Creditor days	65	43	76	70	65	65
Working Capital Days	166	154	178	144	138	138

Source: Company, CEBPL

Historical recommendations and target price: Laurus Labs



Laurus Labs Ltd.

1.	30-07-2021	OUTPERFORM / BUY,	Target Price Rs.764
2.	29-10-2021	OUTPERFORM / BUY,	Target Price Rs.600
3.	29-01-2022	ADD,	Target Price Rs.529
4.	30-04-2022	OUTPERFORM,	Target Price Rs.715
5.	29-07-2022	OUTPERFORM,	Target Price Rs.634
6.	24-10-2022	ADD,	Target Price Rs.533
7.	31-01-2023	NEUTRAL,	Target Price Rs.323
8.	28-04-2023	NEUTRAL,	Target Price Rs.303
9.	28-07-2023	NEUTRAL,	Target Price Rs.328
10.	23-10-2023	ADD,	Target Price Rs.437
11.	25-01-2024	ADD,	Target Price Rs.422
11.	26-04-2024	BUY,	Target Price Rs.475
12.	25-07-2024	BUY,	Target Price Rs.475
13.	24-10-2024	BUY,	Target Price Rs. 531

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