

Laurus Labs Q1FY25 results were below our estimates, the company reported a top-line of INR 11,949mn (1.1% YoY and -17.0% QoQ) impacted by subdued demand in the CDMO business. EBITDA was reported at INR 1,712mn (2.7% YoY and -29.1% QoQ) and margin at 14.3% showing a marginal growth of 22bps YoY and declining by 245bps 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 and invest in high-value and growing market segments.

- **API business:** The revenues from API business reported was INR 6,639mn, with a growth of 11.2% YoY but a de-growth of 10.9% QoQ. Strong oncology delivery, which increased by 122% yearly, and modest demand for ARV volumes were the primary drivers of the growth. The company's main goal is to offset the portfolio's pricing challenges for APIs. The business continues to hold a dominant market share in first-line HIV therapy.
- **CDMO Synthesis business:** The segment reported revenue of INR 2,140mn, with a decline of 14.4% YoY and 9.3% QoQ. The company is allocating towards delivering multiple high-value complex programs in every phase. H2FY25 is expected to be much better than H1FY25, supported by large CDMO opportunities.
- **Formulation business:** The segment reported a revenue of INR 2,740mn, with a de-growth of 3.9% YoY and 36.3% QoQ. The growth was impacted due to lower ARV volumes (-20%), which offset the growth from the portfolio of developed markets (despite pricing pressure). The growth in FY25 will be supported by the ANDA approvals.
- **Laurus Bio business:** The Bio segment's revenue experienced a decline of 13.8% YoY but a significant growth of 50.9% QoQ, which was due to strong customer orders. The company continued to see good interest in the market for the newly introduced AOF products.
- **Margin profile:** The gross margin saw a significant growth of 448bps YoY and 522bps QoQ to 55.1% due to a change in product mix and favorable pricing mechanism. EBITDA margin at 14.3% (22bps YoY / -245bps QoQ) due to lower asset utilization and dilution from growth projects. Going forward, the management is confident of maintaining at least 50% gross margin and achieving 20% EBITDA margin in FY25, supported by better utilization of assets and improvement in productivity.
- **Outlook & Valuation:** Laurus is confident that its performance will improve in H2FY25, which will be supported by its expansion into newer business segments including Animal health, crop science, biotechnology, cell & gene therapy, and growth from projects ramp-up and new assets coming online. We value the stock at 32x FY26E EPS to arrive at a **target price of INR 475** (Unchanged) with a BUY rating.

### Financial Snapshot

| Year end: March        | FY22   | FY23   | FY24   | FY25E  | FY26E  |
|------------------------|--------|--------|--------|--------|--------|
| Revenue (INR Mn.)      | 49,356 | 60,406 | 50,412 | 59,070 | 70,046 |
| Gross Profit (INR Mn.) | 27,418 | 32,662 | 26,088 | 31,203 | 37,924 |
| EBITDA (INR Mn.)       | 14,224 | 15,922 | 7,779  | 11,296 | 16,210 |
| EBITDA Margin (%)      | 28.8   | 26.4   | 15.4   | 19.1   | 23.1   |
| EPS (INR)              | 15.5   | 14.7   | 3.0    | 8.4    | 14.8   |

Source: Company, CEBPL

July 26, 2024

|                   |     |
|-------------------|-----|
| CMP (Rs)          | 432 |
| Target Price (Rs) | 475 |
| Potential (%)     | 9.7 |

### Company Info

|                              |                  |
|------------------------------|------------------|
| BB Code                      | LAURUS IN EQUITY |
| ISIN                         | INE947Q01028     |
| Face Value (Rs.)             | 2.0              |
| 52 Week High (Rs.)           | 485              |
| 52 Week Low (Rs.)            | 328              |
| Mkt Cap (Rs bn.)             | 233              |
| Mkt Cap (\$ bn.)             | 2.8              |
| Shares o/s (Mn.)/F.Float (%) | 539.2            |
| TTM EPS (Rs)                 | 2.75             |
| FY26E EPS (Rs)               | 14.8             |

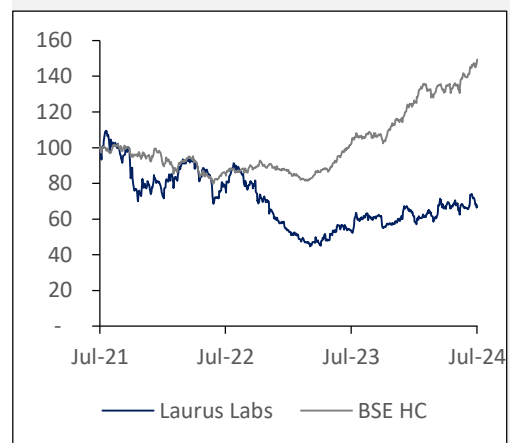
### Shareholding Pattern (%)

|           | Jun-24 | Mar-24 | Dec-23 |
|-----------|--------|--------|--------|
| Promoters | 27.18  | 27.18  | 27.18  |
| FII's     | 25.67  | 25.98  | 25.39  |
| DII's     | 13.56  | 11.78  | 11.13  |
| Public    | 33.59  | 35.07  | 36.30  |

### Relative Performance (%)

| YTD            | 3Y    | 2Y    | 1Y   |
|----------------|-------|-------|------|
| BSE Healthcare | 49.5  | 75.0  | 46.3 |
| Laurus         | -33.2 | -13.0 | 24.7 |

### Rebased Price Performance



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### Quarterly performance

| Particulars (Rs. In Mn.) | Q1FY25 | Q1FY24 | YoY (%)   | Q4FY24 | QoQ (%)   |
|--------------------------|--------|--------|-----------|--------|-----------|
| Revenue                  | 11,949 | 11,818 | 1.1       | 14,397 | (17.0)    |
| Cost of Goods Sold       | 5,369  | 5,839  | (8.1)     | 7,220  | (25.6)    |
| Gross Margin (%)         | 55.1   | 50.6   | 448 bps   | 49.8   | 522 bps   |
| Employee Expenses        | 1,740  | 1,599  | 8.8       | 1,611  | 8.0       |
| EBITDA                   | 1,712  | 1,667  | 2.7       | 2,415  | (29.1)    |
| EBITDA Margin (%)        | 14.3   | 14.1   | 22 bps    | 16.8   | (245) bps |
| Depreciation             | 1,061  | 906    | 17.1      | 1,023  | 3.7       |
| EBIT                     | 651    | 762    | (14.5)    | 1,392  | (53.2)    |
| Interest                 | 492    | 392    | 25.5      | 505    | (2.6)     |
| PBT                      | 185    | 406    | (54.5)    | 1,073  | (82.8)    |
| Tax                      | 63     | 122    | (48.7)    | 320    | (80.4)    |
| PAT                      | 127    | 284    | (55.4)    | 750    | (83.1)    |
| PAT Margin (%)           | 1.1    | 2.4    | (134) bps | 5.2    | (415) bps |
| EPS                      | 0.2    | 0.5    | (52.7)    | 1.4    | (83.1)    |

Source: Company, CEBPL

### Segmental Performance

| Particulars (Rs. In Mn.) | Q1FY25 | Q1FY24 | YoY (%) | Q4FY24 | QoQ (%) |
|--------------------------|--------|--------|---------|--------|---------|
| API                      | 6639   | 5969   | 11.2    | 7450   | (10.9)  |
| % of sales               | 55.6   | 50.5   |         | 51.7   |         |
| Formulation              | 2740   | 2850   | (3.9)   | 4300   | (36.3)  |
| % of sales               | 22.9   | 24.1   |         | 29.9   |         |
| Synthesis                | 2140   | 2500   | (14.4)  | 2360   | (9.3)   |
| % of sales               | 17.9   | 21.2   |         | 16.4   |         |
| Laurus Bio               | 430    | 500    | (14.0)  | 287    | 49.8    |
| % of sales               | 3.6    | 4.2    |         | 2.0    |         |
| Total Sales              | 11,949 | 11,818 | 1.1     | 14,397 | (17.0)  |

Source: Company, CEBPL

### CEBPL Actual vs Estimates

| Rs. In Mn.        | Actual | Estimates | % Change |
|-------------------|--------|-----------|----------|
| Sales             | 11,949 | 12,872    | (7.2)    |
| EBITDA            | 1,712  | 2,112     | (19.0)   |
| EBITDA Margin (%) | 14.3   | 16.4      | (208.3)  |
| PAT               | 127    | 613       | (79.3)   |
| EPS               | 0.2    | 1.1       | (79.3)   |

Source: Company, CEBPL

### Change in estimates for FY25E & FY26E

| Rs.Mn             | FY25E  |          |         | FY26E  |          |         |
|-------------------|--------|----------|---------|--------|----------|---------|
|                   | New    | Previous | Change  | New    | Previous | Change  |
| Revenue           | 59,070 | 59,324   | (0.4)   | 70,046 | 71,021   | (1.4)   |
| EBITDA            | 11,296 | 11,163   | 1.2     | 16,210 | 16,622   | (2.5)   |
| EBITDA Margin (%) | 19.1   | 18.8     | 30.7bps | 23.1   | 23.4     | (26)bps |
| PAT               | 4,534  | 4,395    | 3.1     | 7,996  | 7,973    | 0.3     |
| EPS (Rs.)         | 8.4    | 8.2      | 2.8     | 14.8   | 14.8     | (0.1)   |

Source: Company, CEBPL

## Management Call - Highlights

### CDMO

- Continued operational and commercial improvements with revenue aligning with expectations.
- The company is committed to a healthy growth outlook, supported by scheduled project deliveries for key late-phase NC projects in Q4 FY25.
- Momentum in RFPs from big pharma and large biotechs continues, with increased business development efforts toward securing early-stage projects and ongoing commercial supplies for about 10 products, including APIs and several advanced intermediates.

### Animal Health

- The Animal Health facility is in the early stages of commercial validation.
- Crop production engineering facility qualification is targeted by the end of FY25, with an R&D center commissioning next month to further expand the company's R&D capabilities and support new business opportunities.

### Generic API

- The current order book for the product basket looks encouraging, supported by additional supply contracts secured through successful tender wins by customers.
- The company has completed the validation of new oncology products at the Vizag site with increased mass sizes and is currently awaiting regulatory approval.
- Sales decline was mainly due to the timing of some CMO contract delivery schedules, but the company remains committed to long-term growth with a clear focus on cost leadership in select high-value APIs.
- The company filed 3 DMFs, all in non-ARV categories, in Q1 FY25.

### Generic Formulation

- The company's JV with Karka will focus on delivering synergies and enhancing the product portfolio.
- To meet the near-term needs of partners, the company has extended CMO collaboration to include additional oral solid dosage manufacturing lines at the existing Vizag facility.

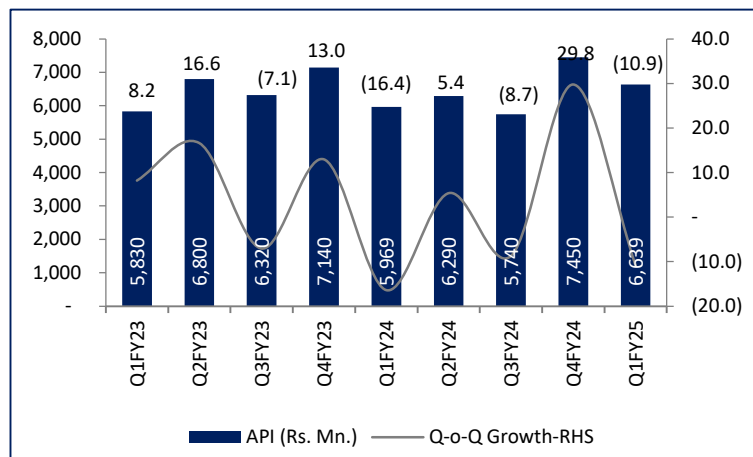
### Others

- The company is working to increase the volume share of select products in the US and expects to benefit from recent NDA approvals in the next couple of quarters, supporting anticipated full-year utilization pickup.
- The company expects its facility in Vizag to be commissioned by June 2026.
- The company underwent 32 quality audits in Q1 FY25 by multiple drug regulatory agencies and several customers, successfully passing all inspections without any critical findings.
- An additional CMO contract will increase manufacturing lines, boosting solid dosage capacity from 2 billion tablets to an additional 3 billion tablets over time.
- Commitment to disruptive technology in the cell and gene therapy space continues to excel, especially in enabling broader access to innovative cell therapy products like NexCAR-19 for patients in need.
- In gene therapy, active progress is being made on the construction of a GMP lab focusing on manufacturing GMP viral vectors and gene therapy products.

### Outlook

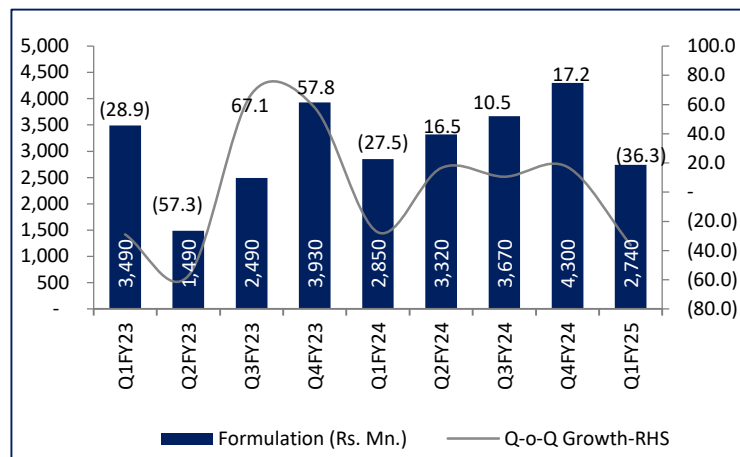
- The company expects an improvement in EBITDA from H2 FY25.
- The company aims to achieve a net debt to EBITDA ratio of 2.5x by the end of FY25.
- H2 FY25 is expected to show good results, with further improvements in FY26.
- Revenue from the Para IV and FTF filings is not expected before FY29.

API Sales (Rs. mn) and QoQ Growth



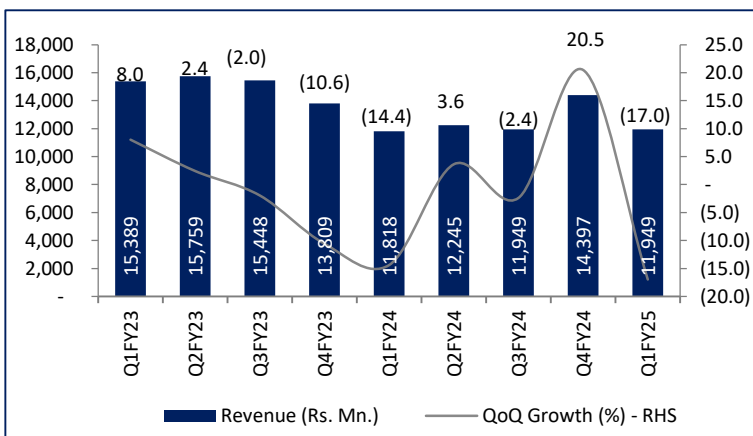
Source: Company, CEBPL

Formulation Sales (Rs. mn) and QoQ Growth



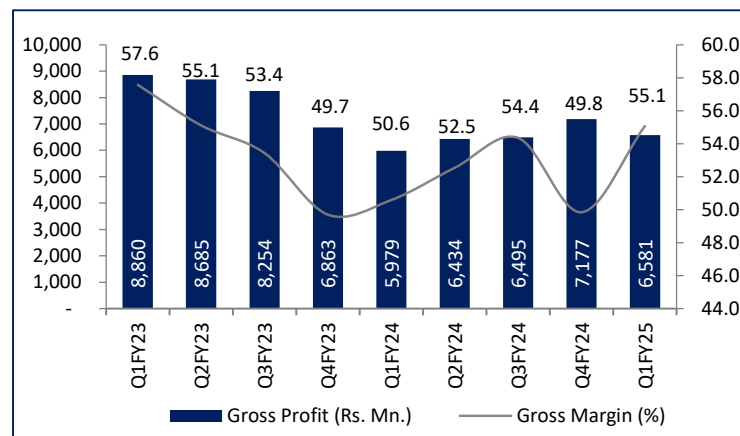
Source: Company, CEBPL

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



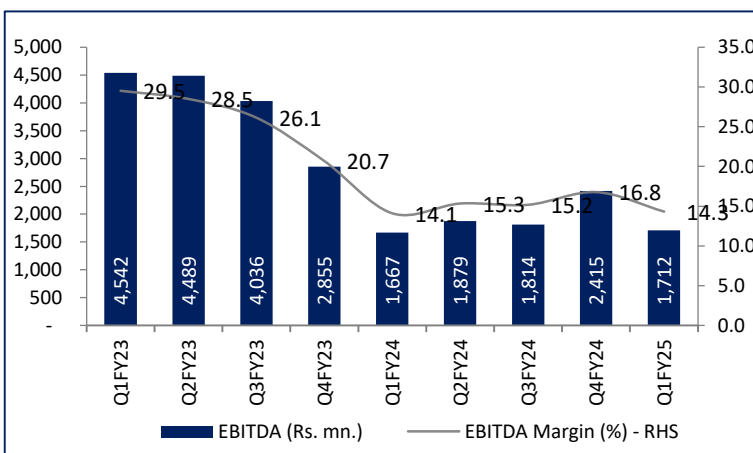
Source: Company, CEBPL

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



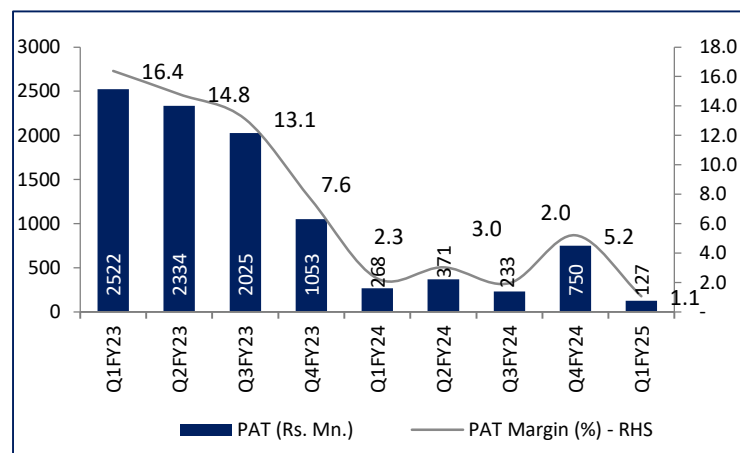
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



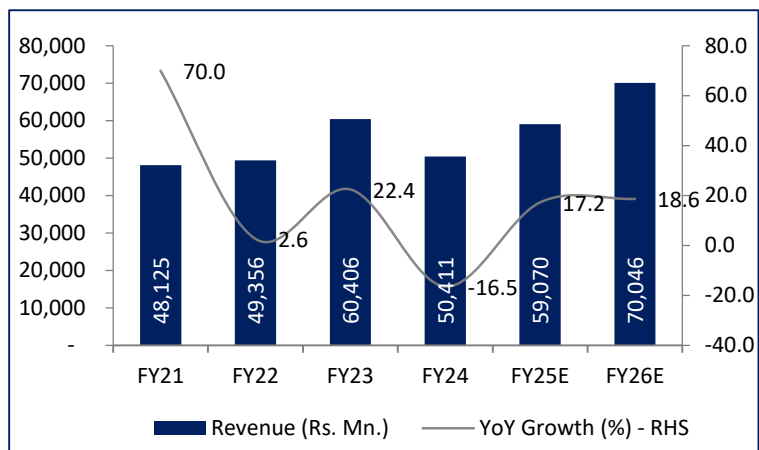
Source: Company, CEBPL

PAT (Rs. mn) and Margin (%)



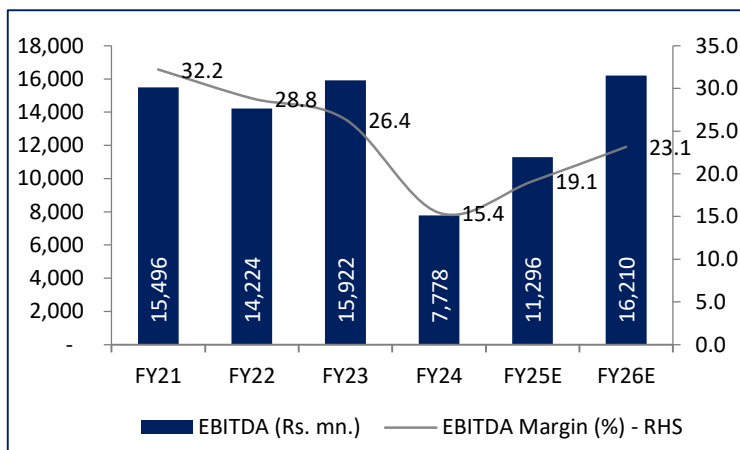
Source: Company, CEBPL

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



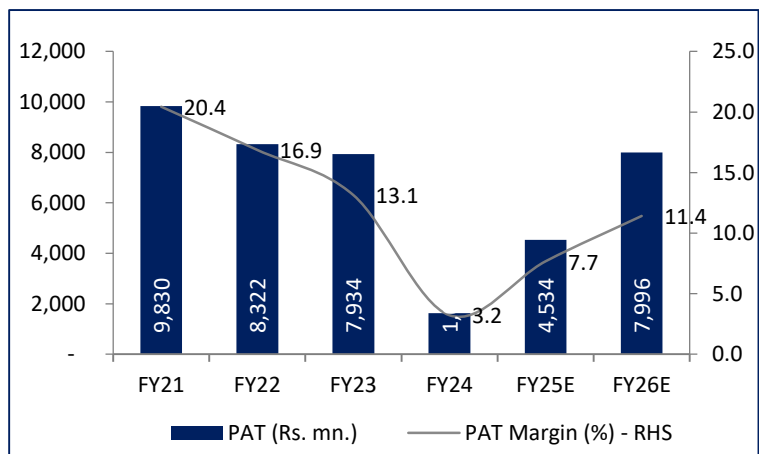
Source: Company, CEBPL

EBITDA (Rs. mn) and Margin (%)



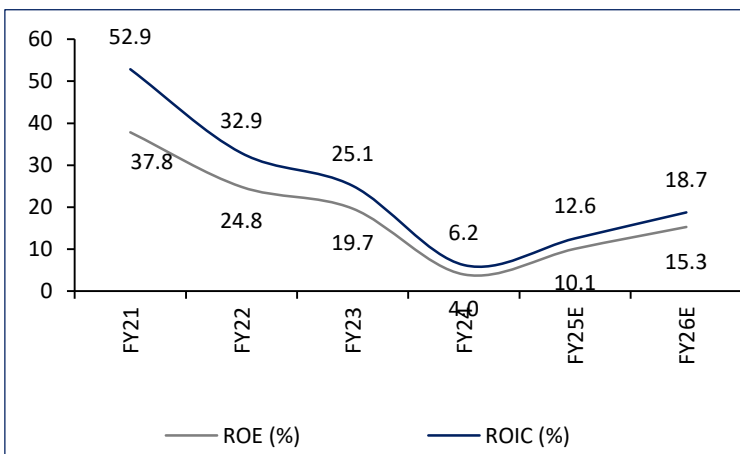
Source: Company, CEBPL

PAT (Rs. mn) and Margin (%)



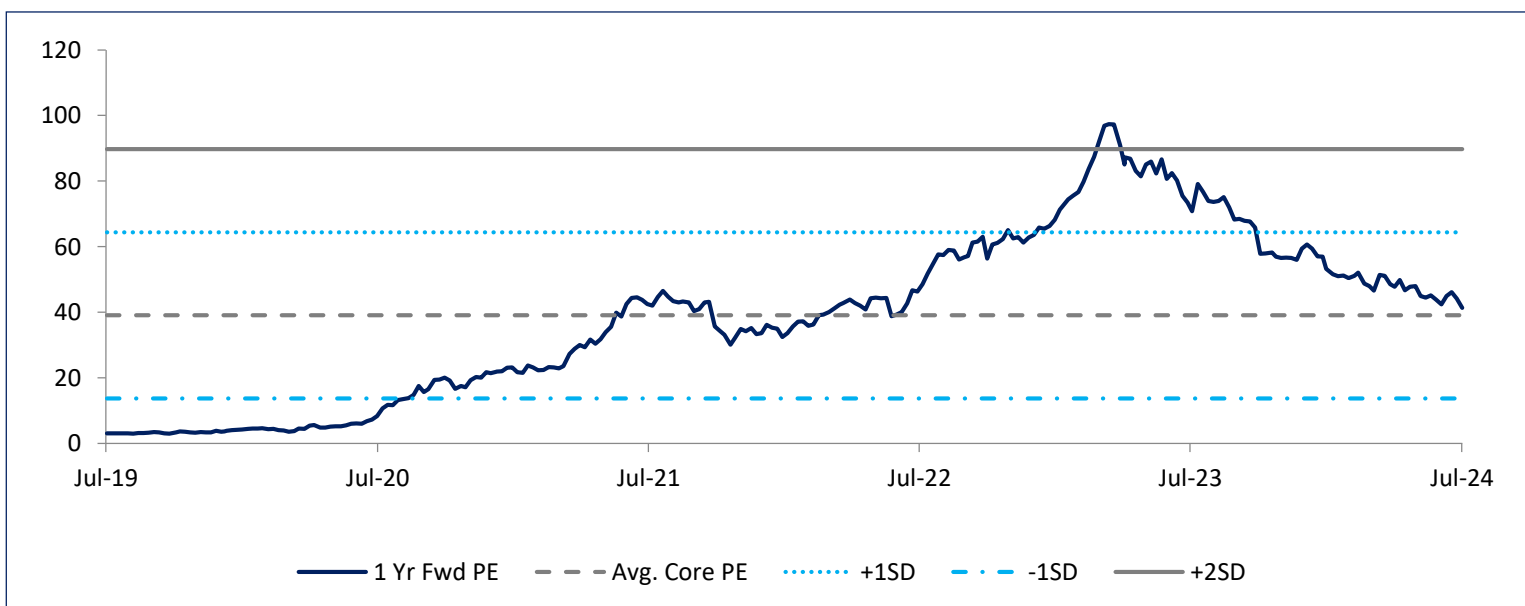
Source: Company, CEBPL

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  |
|------------------|--------|--------|--------|--------|--------|
| Revenue          | 49,356 | 60,406 | 50,412 | 59,070 | 70,046 |
| Gross profit     | 27,418 | 32,662 | 26,088 | 31,203 | 37,924 |
| EBITDA           | 14,224 | 15,922 | 7,779  | 11,296 | 16,210 |
| Depreciation     | 2,515  | 3,241  | 3,846  | 3,721  | 4,063  |
| EBIT             | 11,709 | 12,681 | 3,933  | 7,575  | 12,147 |
| Other income     | 153    | 60     | 263    | 413    | 420    |
| Interest expense | 1,024  | 1,652  | 1,829  | 1,903  | 1,880  |
| PBT              | 10,838 | 11,089 | 2,367  | 6,085  | 10,688 |
| Reported PAT     | 8,322  | 7,934  | 1,626  | 4,534  | 7,996  |
| EPS              | 15.5   | 14.7   | 3.0    | 8.4    | 14.8   |

**Balance sheet (Consolidated in INR Mn.)**

| Particulars                   | FY22   | FY23   | FY24   | FY25E  | FY26E    |
|-------------------------------|--------|--------|--------|--------|----------|
| Net worth                     | 33,591 | 40,487 | 41,156 | 45,116 | 52,465   |
| Borrowings                    | 17,767 | 20,151 | 25,774 | 26,553 | 27,271   |
| Trade Payables                | 8,764  | 7,107  | 10,512 | 11,329 | 12,474   |
| Other non-current liabilities | 2,920  | 3,806  | 2,988  | 3,245  | 3,472    |
| Other current liabilities     | 6,640  | 5,054  | 3,440  | 3,611  | 4,382    |
| Total Net Worth & liabilities | 69,680 | 76,604 | 83,870 | 89,854 | 1,00,064 |
| Net Block                     | 22,573 | 30,160 | 34,464 | 37,742 | 41,180   |
| Capital WIP                   | 8,132  | 5,508  | 4,228  | 5,800  | 6,000    |
| Goodwill & intangible assets  | 2,571  | 2,592  | 2,653  | 2,633  | 2,653    |
| Investments                   | 308    | 499    | 1,240  | 750    | 850      |
| Trade Receivables             | 13,542 | 15,804 | 16,629 | 16,831 | 19,191   |
| Cash & Cash equivalents       | 759    | 485    | 1,417  | 3,175  | 4,487    |
| Other non-current assets      | 2,650  | 3,229  | 2,936  | 3,156  | 3,611    |
| Other current assets          | 19,145 | 18,328 | 20,304 | 19,766 | 22,093   |
| Total Assets                  | 69,680 | 76,604 | 83,870 | 89,854 | 1,00,064 |

**Cash Flows (Consolidated in INR Mn.)**

| Particulars                | FY22    | FY23    | FY24    | FY25E   | FY26E   |
|----------------------------|---------|---------|---------|---------|---------|
| Cash flows from operations | 9,111   | 9,939   | 6,656   | 9,463   | 10,785  |
| Cash flows from investing  | (9,144) | (9,961) | (8,224) | (6,352) | (7,720) |
| Cash flows from financing  | 302     | (267)   | 2,498   | (463)   | (1,753) |

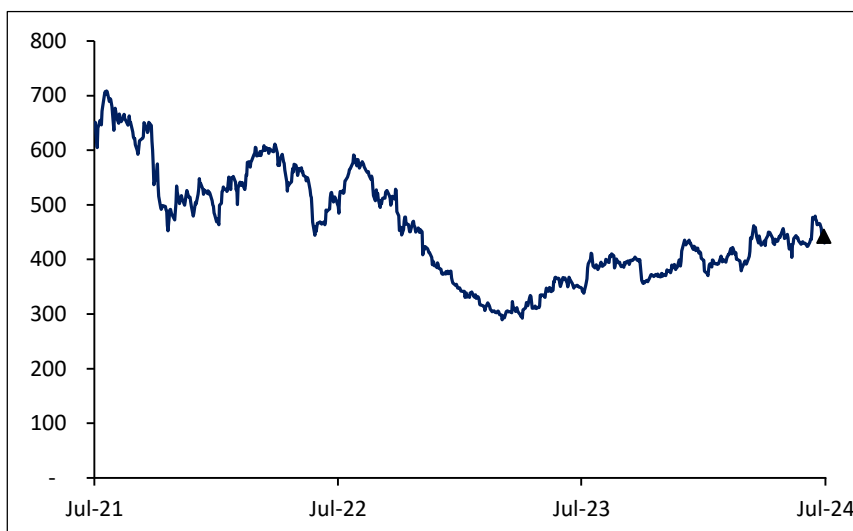
Source: Company, CEBPL

| Growth Ratios (%)                 | FY22   | FY23  | FY24   | FY25E | FY26E |
|-----------------------------------|--------|-------|--------|-------|-------|
| Revenues                          | 2.6    | 22.4  | (16.5) | 17.2  | 18.6  |
| Gross Profit                      | 3.3    | 19.1  | (20.1) | 19.6  | 21.5  |
| EBITDA                            | (8.2)  | 11.9  | (51.1) | 45.2  | 43.5  |
| EBIT                              | (12.9) | 8.3   | (69.0) | 92.7  | 60.4  |
| PBT                               | (16.6) | 2.3   | (78.7) | 157.2 | 75.6  |
| PAT                               | (15.3) | (4.7) | (79.5) | 178.9 | 76.4  |
| <b>Margins (%)</b>                |        |       |        |       |       |
| Gross Profit Margin               | 55.6   | 54.1  | 51.7   | 52.8  | 54.1  |
| EBITDA Margin                     | 28.8   | 26.4  | 15.4   | 19.1  | 23.1  |
| EBIT Margin                       | 23.7   | 21.0  | 7.8    | 12.8  | 17.3  |
| PBT Margin                        | 22.0   | 18.4  | 4.7    | 10.3  | 15.3  |
| Tax rate                          | 23.2   | 28.2  | 28.8   | 25.0  | 25.0  |
| PAT Margin                        | 16.9   | 13.1  | 3.2    | 7.7   | 11.4  |
| <b>Profitability (%)</b>          |        |       |        |       |       |
| Return on equity (ROE)            | 24.8   | 19.7  | 4.0    | 10.1  | 15.3  |
| Return on invested capital (ROIC) | 32.9   | 25.1  | 6.2    | 12.6  | 18.7  |
| Return on capital employed (ROCE) | 23.0   | 21.1  | 5.9    | 10.7  | 15.3  |
| <b>Financial leverage (x)</b>     |        |       |        |       |       |
| Pre-tax OCF/EBITDA                | 0.8    | 0.8   | 0.9    | 1.0   | 0.8   |
| OCF / Net profit                  | 1.1    | 1.3   | 4.1    | 2.1   | 1.3   |
| EV/EBITDA                         | 17.2   | 15.6  | 32.5   | 22.7  | 15.8  |
| <b>Earnings</b>                   |        |       |        |       |       |
| EPS                               | 15.5   | 14.7  | 3.0    | 8.4   | 14.8  |
| Shares outstanding                | 537    | 539   | 539    | 539   | 539   |
| <b>Working Capital (x)</b>        |        |       |        |       |       |
| Inventory days                    | 130    | 102   | 134    | 110   | 103   |
| Receivable days                   | 100    | 95    | 120    | 104   | 100   |
| Creditor days                     | 65     | 43    | 76     | 70    | 65    |
| Working Capital Days              | 166    | 154   | 178    | 144   | 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 |

### Institutional Research Team

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### CHOICE RATING DISTRIBUTION & METHODOLOGY

|                   |   |
|-------------------|---|
| <b>OUTPERFORM</b> | The security is expected to generate more than 25% returns over the next 12 months                    |
| <b>BUY</b>        | The security is expected to generate greater than 5% to less than 25% returns over the next 12 months |
| <b>REDUCE</b>     | The security expected to show downside or upside returns by 0% to 5% over the next 12 months          |
| <b>SELL</b>       | The security expected to show Below 0% next 12 months   |

### Disclaimer

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