

Estimate change

TP change

Rating change



CMP: INR401

TP: INR440 (+10%)

Buy

Operating deleverage drags earnings

Expect the business to recover from 4QFY24

Bloomberg	LAURUS IN
Equity Shares (m)	532
M.Cap.(INRb)/(USDb)	216.1 / 2.6
52-Week Range (INR)	445 / 279
1, 6, 12 Rel. Per (%)	-4/6/-3
12M Avg Val (INR M)	854

Financials & valuations (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	50.1	57.9	65.6
EBITDA	8.3	13.9	16.5
Adj. PAT	2.1	6.4	8.2
EBIT Margin (%)	9.0	17.4	19.1
Cons. Adj. EPS (INR)	3.9	11.8	15.3
EPS Gr. (%)	-73.9	206.5	29.5
BV/Sh. (INR)	78.4	88.4	101.3

Ratios

Net D:E	0.5	0.4	0.4
RoE (%)	5.0	14.2	16.1
RoCE (%)	5.5	11.6	13.1
Payout (%)	15.6	15.6	15.6

Valuations

P/E (x)	103.5	33.8	26.1
EV/EBITDA (x)	28.4	17.0	14.3
Div. Yield (%)	0.1	0.4	0.5
FCF Yield (%)	0.6	1.1	1.4
EV/Sales (x)	4.7	4.1	3.6

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	27.2	27.2	27.2
DII	11.1	11.0	9.5
FII	25.4	24.0	21.9
Others	36.3	39.9	41.4

FII includes depository receipts

■ Laurus Labs (LAURUS) reported another quarter of lower-than-expected earnings. There has been a delay in the ramp-up of sales from the CDMO and Non-ARV segments. LAURUS continued to incur operational costs on expanded capacity, which is yet to be utilized optimally. This has affected its performance adversely for 3QFY24.

■ We cut our PAT estimates by 56%/30%/20% for FY24/FY25/FY26 factoring in: 1) a gradual pick-up in animal health contracts, 2) a delay in scale-up of Non-ARV formulation, and 3) a moderation in pricing of the Non-ARV API products. We value LAURUS at 25x 12M forward earnings to arrive at our TP of INR440.

■ LAURUS would incur a cumulative capex of INR28b over FY22-24, across CDMO, Non-ARV formulation, and Non-ARV API segments. Further, it is undergoing a validation phase for products in the animal health segment, and capex for the crop science segment. Further, it is building a product pipeline in the non-ARV formulation segment. While the ramp-up is expected to be gradual, considering the historical asset-turn of 1.3x, the business potential can be INR36b over the next 3-4 years. **Reiterate BUY.**

Elevated operating cost outweighs product mix benefit

■ LAURUS' 3QFY24 revenue declined 22.6% YoY to INR12b (our est. INR14b). Synthesis business (18% of sales) was down 67.0% YoY to INR2.1b, partly due to the high base of last year. FDF sales grew 47.4% YoY to INR3.7b (31% of sales), with stable ARV sales and continued scale-up in Non-ARV sales. API sales declined 9.2% YoY to INR5.7b (48% of sales). Particularly, Other API sales dipped 24.8% YoY to INR1.4b. ARV-API sales declined 6.1% YoY to INR3.5b. Bio division sales (4% of sales) grew 91% YoY to INR420m.

■ The gross margin (GM) expanded 90bp YoY to 54.4%, owing to the better segmental mix.

■ EBITDA margin contracted 10.9% YoY to 15.2% (our est: 23.1%) due to higher opex (other expenses/employee costs up 840bp/340p YoY as a % of sales). EBITDA declined 55% YoY to INR1.8b (our est. at INR3.3b).

■ PAT declined at a higher rate of 89% YoY to INR231m (our est: INR1.5b) on account of higher depreciation/interest expenses and higher tax.

■ For 9MFY24, revenue/EBITDA/PAT declined 23%/59%/87% YoY to INR36b/INR5.4b/INR869m.

Highlights from the management commentary

■ The performance across segments is likely to improve from 4QFY24 due to scheduled multiple launches in the formulation segment (FDF), volume gains in existing products across the US/Europe, validation batches for products under animal health contract, scheduled CMO delivery, as well as strong volumes in ARV/Onco-API segments.

■ The operational cash flow for 9MFY24, at INR3.7b, was less than INR4.7b in 1HFY24, due to increased working capital needs because of inventory build-up.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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

Consolidated - Quarterly Earning Model

(INRb)

Y/E Mar (INRb)	FY23				FY24E				FY23	FY24E	FY24E	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	15.4	15.8	15.4	13.8	11.8	12.2	11.9	14.1	60.4	50.1	13.1	-15.7
YoY Change (%)	20.4	30.9	50.2	-3.1	-23.2	-22.3	-22.6	1.8	22.4	-17.1	-16.6	
Total Expenditure	10.8	11.3	11.4	11.0	10.2	10.4	10.1	11.1	44.5	41.8	10.9	
EBITDA	4.5	4.5	4.0	2.9	1.7	1.9	1.8	3.0	15.9	8.3	2.3	-44.6
YoY Change (%)	14.9	30.1	41.5	-28.0	-63.3	-58.1	-55.0	3.4	11.9	-47.8	-49.7	
Margins (%)	29.5	28.5	26.1	20.7	14.1	15.3	15.2	21.0	26.4	16.6	17.2	
Depreciation	0.7	0.8	0.8	0.9	0.9	0.9	1.0	1.0	3.2	3.8	0.9	
EBIT	3.8	3.7	3.2	2.0	0.8	0.9	0.8	2.0	12.7	4.5	1.4	-64.4
YoY Change (%)	13.8	30.2	44.2	-40.0	-80.1	-74.3	-74.0	-0.5	8.3	-64.4	-63.2	
Margins (%)	24.9	23.3	20.7	14.4	6.4	7.7	6.9	14.1	21.0	9.0	10.3	
Interest	0.3	0.4	0.4	0.5	0.4	0.4	0.5	0.5	1.7	1.8	0.4	
Other Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	
PBT before EO expense	3.6	3.3	2.8	1.5	0.4	0.5	0.3	1.6	11.1	2.9	1.0	-82.3
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	3.6	3.3	2.8	1.5	0.4	0.5	0.3	1.6	11.1	2.9	1.0	-82.3
Tax	1.0	0.9	0.7	0.4	0.1	0.1	0.1	0.4	3.1	0.7	0.2	
Rate (%)	29.0	28.7	26.9	27.1	30.0	27.0	27.3	22.6	28.2	25.1	25.5	
Reported PAT	2.5	2.3	2.0	1.1	0.3	0.4	0.2	1.2	8.0	2.1	0.7	-84.2
Adj PAT	2.5	2.3	2.0	1.1	0.3	0.4	0.2	1.2	8.0	2.1	0.7	-84.2
YoY Change (%)	4.5	14.6	31.0	-54.6	-89.4	-84.2	-88.6	14.9	-4.3	-73.9	-68.8	
Margins (%)	16.4	14.8	13.1	7.6	2.3	3.0	1.9	8.6	13.2	4.1	5.6	

E: MOFSL Estimates

Key performance Indicators (Consolidated)

(INRb)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
API	5.8	6.8	6.3	7.1	6.0	6.3	5.7	6.8	26.1	24.8	6.6
YoY Change (%)	6.2	29.0	49.1	32.5	2.4	(7.5)	(9.2)	(5.2)	28.0	(5.1)	3.6
Custom Synthesis	5.8	7.2	6.4	2.3	2.5	2.2	2.1	2.9	21.7	9.8	3.7
YoY Change (%)	195.9	364.5	210.1	(36.7)	(56.7)	(68.9)	(67.0)	26.8	136.3	(55.0)	(42.4)
Formulation	3.5	1.5	2.5	3.9	2.9	3.3	3.7	3.8	11.4	13.7	3.5
YoY Change (%)	(33.0)	(69.9)	(33.2)	(20.0)	(18.3)	122.8	47.4	(2.3)	(39.4)	20.0	40.6
Cost Break-up											
RM Cost (% of Sales)	42.4	44.9	46.6	50.3	49.4	47.5	45.6	45.7	45.9	47.0	46.5
Staff Cost (% of Sales)	9.9	9.3	9.5	9.7	13.5	13.4	13.0	11.2	9.6	12.7	11.0
R&D Expenses(% of Sales)	3.2	3.1	3.6	3.5	4.1	4.7	4.8	3.5	2.8	3.4	3.9
Other Cost (% of Sales)	18.2	17.3	17.8	19.3	22.9	23.8	26.2	22.1	18.1	23.7	19.4
Gross Margins(%)	57.6	55.1	53.4	49.7	50.6	52.5	54.4	54.3	54.1	53.0	53.5
EBITDA Margins(%)	29.5	28.5	26.1	20.7	14.1	15.3	15.2	21.0	26.4	16.6	23.1
EBIT Margins(%)	24.9	23.3	20.7	14.4	6.4	7.7	6.9	14.1	21.0	9.0	16.5

E: MOFSL Estimates



Other highlights from the management commentary

- The operational cash flow for 9MFY24 at INR3.7b is less than INR4.7b in 1HFY24 due to increased working capital needs on account of inventory build-up.
- LAURUS needs to validate about 20 products under the animal health contract. It has done three to date and expects to complete the rest over the next 12-15M.
- There has been a transitional shipment impact and subdued pricing in the Non-ARV API segment, thereby affecting its performance for the quarter adversely.
- It has filed one ANDA and one DMF in 3QFY24 and has filed 39 ANDAs to date.
- The Net debt was about INR25b at the end of 3QFY24
- LAURUS incurred capex of INR1.9b for the quarter. The gross block at the end of FY24 would be INR60b.

- R&D spending for 9MFY24 stood at INR1.7b, which was 4.8% of sales
- Positive RFP flow continued with the increased commercial opportunities for several late-phase NCE projects.
- Integrated capability expansion on track – Animal health unit started commercial validation supplies. The R&D center is coming online by Jun’24-end
- The new R3 site (microbial fermentation) ground broken at MYQ – Stepwise construction to start next quarter with target to operationalize Phase 1 capacity by Jun’26
- As of 31st Dec’23, the cash balance stood at INR370m
- Developed market filings over 9MFY24: Six product dossiers were filed and seven approvals were received (including tentative approvals)

Key exhibits

Exhibit 1: Revenue declined 23% YoY in 3QFY24

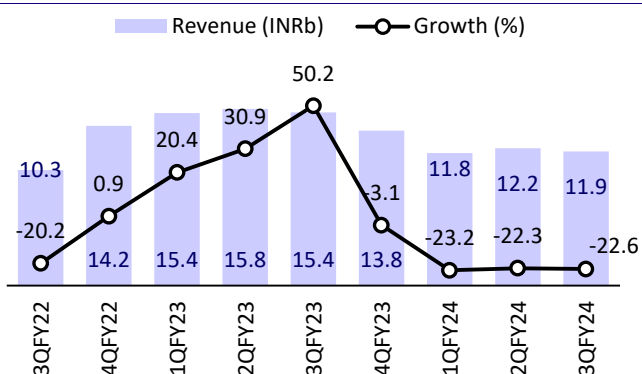


Exhibit 2: Share of FDF sales stood at 28% in 3QFY24

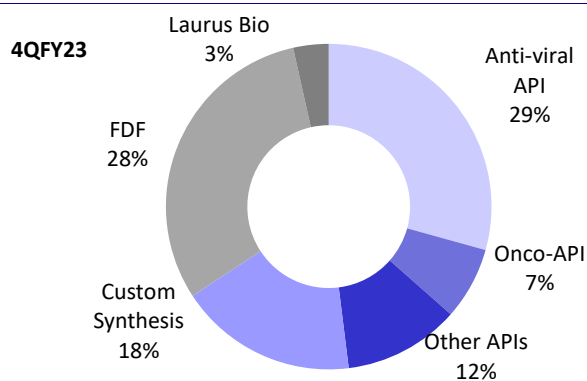


Exhibit 3: API sales declined 9.2% YoY in 3QFY24

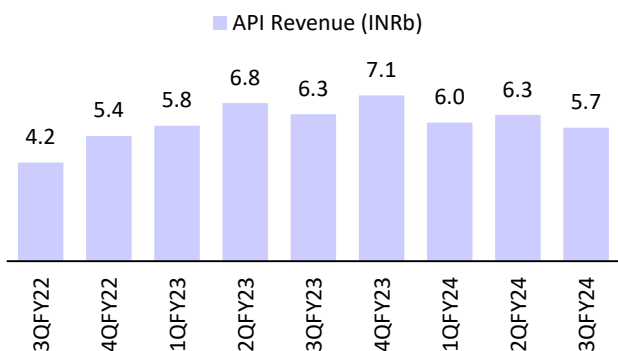


Exhibit 4: ARV-API sales declined 6% YoY in 3QFY24

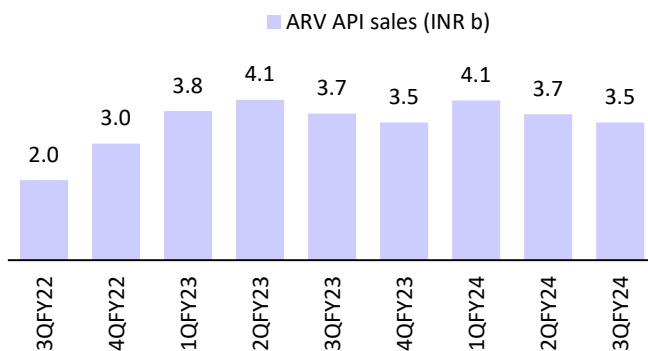
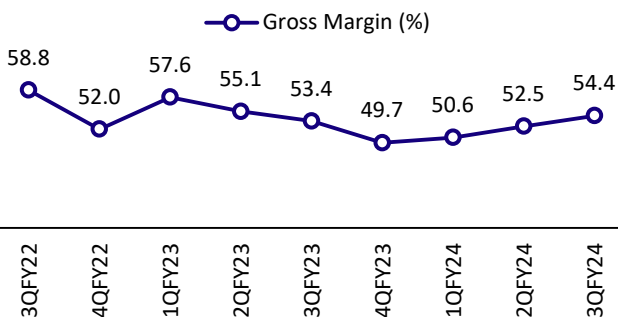
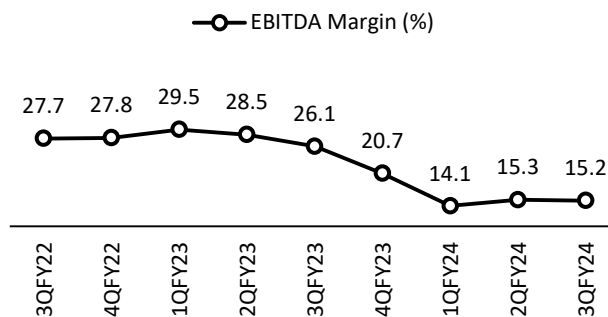


Exhibit 5: Gross margin expanded ~90bp YoY in 3QFY24



Source: MOFSL, Company

Exhibit 6: EBITDA margin contracted ~10.9% YoY in 3QFY24



Source: MOFSL, Company

WIP on new capacity to drive growth in the medium term

Building diversified business scope in the CDMO segment

- In 9MFY24, the CDMO sales declined 65% YoY to INR7b. This was due to the high base of last year, led by large PO executed in 9MFY23.
- However, with increase in RFP flows, the company is witnessing higher commercial opportunities for several late-stage NCE projects.
- LAURUS has started commercial validation of Animal health products, and it expects to validate ~20 products. The benefit of this would accrue from FY26E.
- Further, the crop science unit is under construction and it is likely to generate commercial benefit in 18 months.
- We expect the CDMO business to register 25% CAGR over FY24-26 to INR15b.

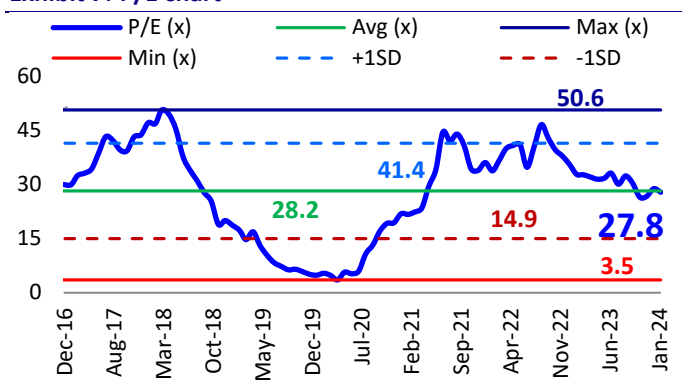
Optimizing capacity/ new launches to fuel growth in FDF/API segment

- In 9MFY24, ARV formulation business growth was driven by improvement in the ARV segment, supported by stable pricing and increase in volumes in the developed market. ARV API segment witnessed a slight decline of 3% in 9MFY24 due to ongoing logistics issue and lower realization offset by a rise in volumes.
- In 9MFY24, the Non-ARV FDF sales growth was driven by increased volume share in the US and Europe. However, on the Non-ARV API front, LAURUS registered a decline of 8.5% in 9MFY24 due to transitional shipment impact/ subdued pricing.
- We expect the Non-ARV segment (FDF and API) sales to register a CAGR of 26% over FY24-26 to INR23b due to favorable demand, increase in capacity utilization, market share gains in the US/Europe and new launches.

Reiterate BUY

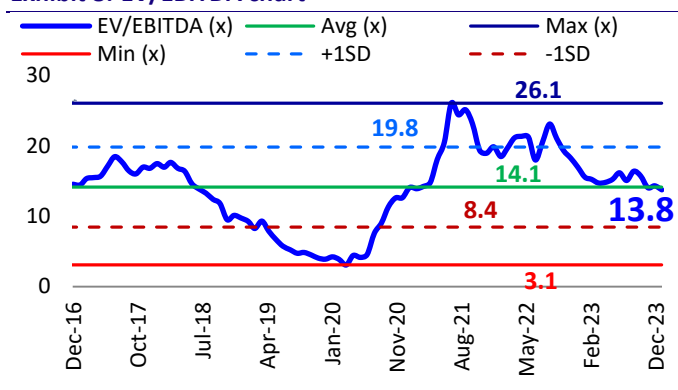
- We cut our PAT estimates by 56%/30%/20% for FY24/FY25/FY26 factoring in: 1) a gradual pick-up in animal health contracts, 2) a delay in scale-up of Non-ARV formulation, and 3) a moderation in pricing of the Non-ARV API products. We value LAURUS at 25x 12M forward earnings to arrive at our TP of INR440.
- LAURUS would incur a cumulative capex of INR28b over FY22-24, across CDMO, Non-ARV formulation, and Non-ARV API segments. Further, it is undergoing a validation phase for products in the animal health segment, and capex for the crop science segment. Further, it is building a product pipeline in the non-ARV formulation segment. While the ramp-up is expected to be gradual, considering the historical asset-turn of 1.3x, the business potential can be INR36b over the next 3-4 years. **Reiterate BUY.**

Exhibit 7: P/E chart



Source: MOFSL, Company, Bloomberg

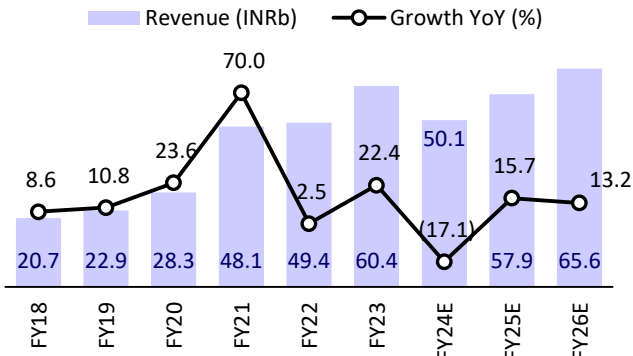
Exhibit 8: EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

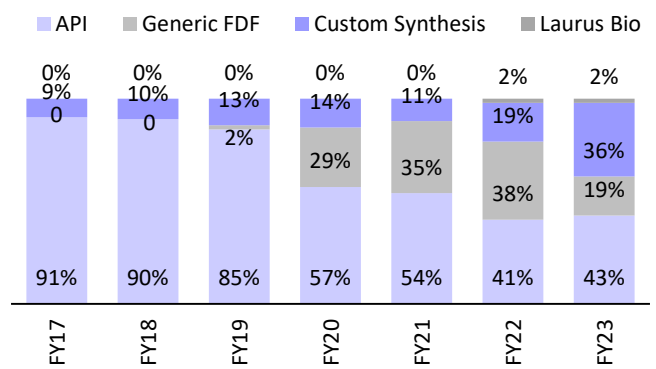
Story in charts

Exhibit 9: Sales CAGR to be 14% over FY24-26



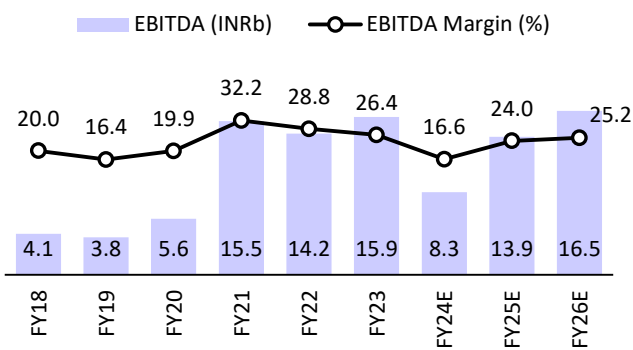
Source: MOFSL, Company

Exhibit 10: Diversified revenue mix



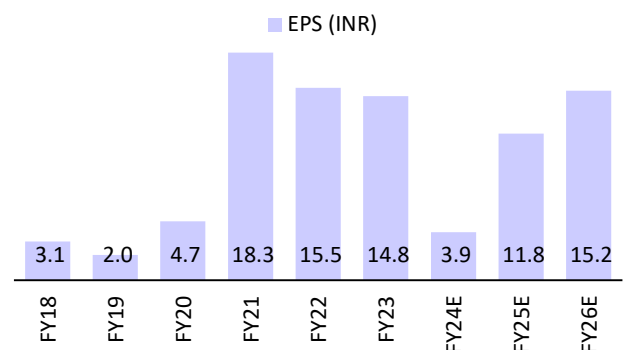
Source: MOFSL, Company

Exhibit 11: EBITDA CAGR to be 41% over FY24-26



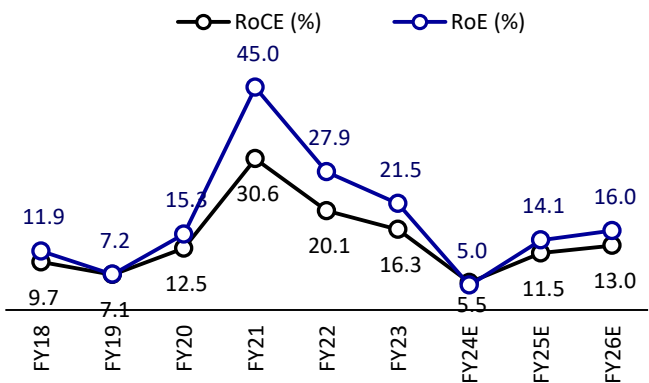
Source: MOFSL, Company

Exhibit 12: Expect strong EPS trajectory over FY24-26



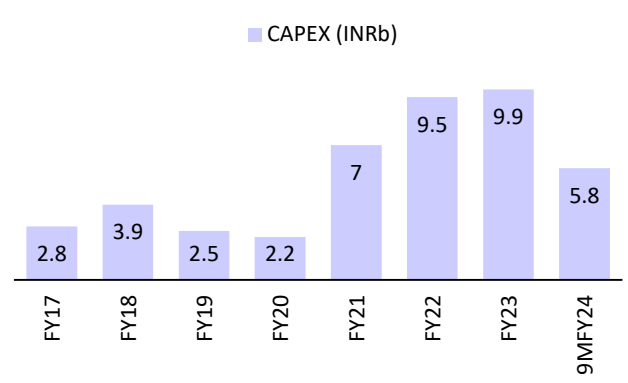
Source: MOFSL, Company

Exhibit 13: Return ratios to bottom out in FY24



Source: MOFSL, Company

Exhibit 14: Significant capex since FY21



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement								(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	22,919	28,317	48,135	49,356	60,406	50,075	57,917	65,572
Change (%)	10.8	23.6	70.0	2.5	22.4	-17.1	15.7	13.2
Total Expenditure	19,155	22,672	32,628	35,131	44,483	41,763	44,017	49,048
% of Sales	83.6	80.1	67.8	71.2	73.6	83.4	76.0	74.8
EBITDA	3,764	5,645	15,507	14,224	15,923	8,312	13,900	16,524
Margin (%)	16.4	19.9	32.2	28.8	26.4	16.6	24.0	25.2
Depreciation	1,642	1,873	2,051	2,515	3,241	3,800	3,797	4,030
EBIT	2,122	3,773	13,456	11,709	12,682	4,513	10,103	12,494
Int. and Finance Charges	882	896	682	1,024	1,652	1,786	1,697	1,632
Other Income	162	59	237	153	60	125	145	164
PBT bef. EO Exp.	1,402	2,936	13,011	10,839	11,090	2,852	8,551	11,026
EO Items	-204	0	0	0	0	0	0	0
PBT after EO Exp.	1,198	2,936	13,011	10,839	11,090	2,852	8,551	11,026
Total Tax	260	383	3,173	2,514	3,123	715	2,121	2,713
Tax Rate (%)	21.7	13.1	24.4	23.2	28.2	25.1	24.8	24.6
Minority Interest	0	0	0	2	32	60	63	66
Reported PAT	938	2,553	9,838	8,322	7,965	2,077	6,367	8,248
Adjusted PAT	1,097	2,553	9,838	8,322	7,965	2,077	6,367	8,248
Change (%)	-34.5	132.6	285.4	-15.4	-4.3	-73.9	206.5	29.5
Margin (%)	4.8	9.0	20.4	16.9	13.2	4.1	11.0	12.6
Consolidated - Balance Sheet								(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	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	41,053	46,425	53,385
minority interest			32	79	111	111	111	111
Net Worth	15,584	17,698	26,007	33,591	40,487	42,241	47,614	54,574
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	10,030	10,123	13,871	17,320	21,006	21,506	22,006	21,506
Deferred Tax Liabilities	-534	-739	192	691	825	825	825	825
Capital Employed	25,081	27,081	40,070	51,602	62,317	64,572	70,445	76,904
Gross Block	20,976	23,821	27,949	35,283	46,085	55,241	63,423	70,909
Less: Accum. Deprn.	4,783	6,655	8,706	11,221	14,462	18,262	22,059	26,089
Net Fixed Assets	16,193	17,166	19,243	24,062	31,623	36,980	41,364	44,820
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	5,852	4,670	4,684
Total Investments	34	34	34	308	993	993	993	993
Curr. Assets, Loans&Adv.	15,357	18,589	32,145	34,715	36,017	31,102	35,316	39,801
Inventory	6,819	9,052	15,755	17,603	16,848	15,103	16,521	18,679
Account Receivables	7,099	7,914	13,061	13,542	15,804	13,308	15,550	17,785
Cash and Bank Balance	30	17	485	759	485	304	483	211
Loans and Advances	1,408	1,605	2,845	2,811	2,880	2,387	2,761	3,126
Curr. Liability & Prov.	7,697	9,477	17,437	18,079	14,287	12,817	14,361	15,857
Account Payables	4,883	6,156	11,787	8,764	7,107	6,865	7,477	8,063
Other Current Liabilities	2,449	2,753	4,894	7,753	6,165	5,110	5,911	6,692
Provisions	365	568	757	1,562	1,016	842	974	1,102
Net Current Assets	7,660	9,112	14,708	16,637	21,730	18,284	20,954	23,944
Appl. of Funds	25,081	27,081	40,070	51,602	62,317	64,572	70,445	76,904

E: MOFSL Estimates

Financials and valuations

Ratios								
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	2.0	4.7	18.3	15.5	14.8	3.9	11.8	15.3
Cash EPS	5.1	8.2	22.1	20.1	20.8	10.9	18.9	22.8
BV/Share	28.9	32.9	48.3	62.4	75.2	78.4	88.4	101.3
DPS	0.3	0.6	2.0	2.0	1.9	0.5	1.5	2.0
Payout (%)	20.4	15.1	13.1	15.6	15.6	15.6	15.6	15.6
Valuation (x)								
P/E	195.9	84.2	21.8	25.8	27.0	103.5	33.8	26.1
Cash P/E	78.5	48.6	18.1	19.8	19.2	36.6	21.1	17.5
P/BV	13.8	12.1	8.3	6.4	5.3	5.1	4.5	3.9
EV/Sales	9.8	7.9	4.7	4.7	3.9	4.7	4.1	3.6
EV/EBITDA	59.8	39.9	14.7	16.3	14.8	28.4	17.0	14.3
Dividend Yield (%)	0.1	0.1	0.5	0.5	0.5	0.1	0.4	0.5
FCF per share	0.7	2.0	0.9	0.6	0.1	2.5	4.2	5.7
Return Ratios (%)								
RoE	7.2	15.3	45.0	27.9	21.5	5.0	14.2	16.1
RoCE	7.1	12.5	30.6	20.1	16.3	5.5	11.6	13.1
RoIC	7.2	13.0	32.7	23.0	18.6	6.0	12.5	13.9
Working Capital Ratios								
Fixed Asset Turnover (x)	1.1	1.2	1.7	1.4	1.3	0.9	0.9	0.9
Asset Turnover (x)	0.9	1.0	1.2	1.0	1.0	0.8	0.8	0.9
Inventory (Days)	109	117	119	130	102	110	104	104
Debtor (Days)	113	102	99	100	95	97	98	99
Creditor (Days)	78	79	89	65	43	50	47	45
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	2.5	6.0	7.7
Net Debt/Equity	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.4

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	1,198	2,936	13,011	10,839	11,089	2,852	8,551	11,026
Depreciation	1,642	1,873	2,051	2,515	3,241	3,800	3,797	4,030
Interest & Finance Charges	720	837	579	862	1,455	1,660	1,552	1,468
Direct Taxes Paid	-260	-383	-2,285	-1,823	-2,855	-713	-2,121	-2,713
(Inc)/Dec in WC	-187	-1,465	-5,941	-3,416	-3,153	3,265	-2,491	-3,261
CF from Operations	3,113	3,797	7,415	8,977	9,778	10,864	9,289	10,550
Others	-136	-323	-85	135	161	0	0	0
CF from Operating incl EO	2,977	3,474	7,330	9,111	9,939	10,864	9,289	10,550
(Inc)/Dec in FA	-2,589	-2,421	-6,839	-8,767	-9,875	-9,500	-7,000	-7,500
Free Cash Flow	387	1,053	491	344	64	1,364	2,289	3,050
(Pur)/Sale of Investments	0	0	-2,584	-393	-223	0	0	0
Others	60	210	13	17	137	125	145	164
CF from Investments	-2,529	-2,211	-9,410	-9,143	-9,961	-9,375	-6,855	-7,336
Issue of Shares	4	5	74	43	74	0	0	0
Inc/(Dec) in Debt	429	139	3,804	1,968	2,138	500	500	-500
Interest Paid	-882	-896	-580	-850	-1,404	-1,786	-1,697	-1,632
Dividend Paid	-191	-384	-750	-859	-1,075	-325	-994	-1,288
Others	193	-140	0	5	13	-60	-63	-66
CF from Fin. Activity	-448	-1,277	2,547	307	-253	-1,670	-2,254	-3,486
Inc/Dec of Cash	0	-14	467	275	-275	-181	179	-272
Opening Balance	29	28	15	483	757	482	303	484
Closing balance	28	15	483	757	482	303	484	214
Bank balance	2	2	2	2	2	1	-1	-3
Total Cash and Cash equivalent	30	17	485	759	485	304	483	211

(INRm)

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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