

Laurus Labs Limited

31st July 2023

Looking beyond near term headwinds

In Q1 FY24, Laurus Labs Limited (Laurus) experienced a decline in revenue by ~23.2% on a YoY basis, led by a steep decline in the CDMO and Formulations segments. The EBITDA margins declined by 1540 Bps on a YoY basis (657 Bps on a QoQ basis) in Q1 FY24 due to a change in product mix and negative operating leverage. However, the capacity expansion is progressing well, focusing on expanding capacity in non-ARV and CDMO segments will help reduce product concentration risk and strategically capitalize on emerging opportunities.

Intensified focus on business diversification

The Company strategically expands its CDMO business, reinforcing its global leadership in high-potent APIs. It also aims to enhance its expertise in biotechnologies for small molecule manufacturing. Diversifying revenue sources is a key objective, with growth in formulations from non-ARV products from FY25 onwards, mirroring the trend in its API business.

Strategic revamping for a stronger future

The Company foresees growth in FY25E from animal health products, Crop Science products, CDMO projects moving into higher clinical phases, commercialization of large volume APIs in the generic segment, and growth in generic formulations. Additionally, it is finalizing orders for R3 capacity expansion at Richcore's site, with facility qualification expected in 18 months.

Overcoming temporary financial challenges

Q1 FY24 results were challenging, with lower revenues, higher upfront costs, and supply rescheduling by customers and ARV agencies. The gross margins were 50.6%, impacted by product mix changes and falling ARV prices. However, the Company expects API and FDF businesses to recover in Q2 FY24, remaining optimistic about the future quarters in the current financial year.

View & Valuation

FY24 is expected to be a difficult period for Laurus Labs, as a significant synthesis contract has been completed with no replacement contract of similar size, and the formulation business & Non-ARV API business continues to be under pressure. However, Laurus is gearing up capacity expansion in non-ARV and CDMO segments, the impact of which will be visible from FY25 onwards, which will help to reduce product concentration risk. In addition to this, the Company is expanding its reach in developed markets through niche product pipelines. We have maintained a BUY rating on Laurus Labs Ltd with our target price of Rs. 402 (15.1x FY25E EV/EBITDA multiple).

BUY

CMP Rs. 352

TARGET Rs. 402 (+14%)

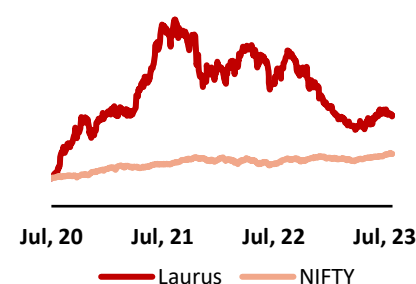
Company Data

Bloomberg Code	Laurus IN
MCAP (Rs. Mn)	1,89,330
O/S Shares (Mn)	539
52w High/Low	606 / 279
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	873

Shareholding Pattern %

	Jun 23	Mar 23	Dec 22
Promoters	27.20	27.20	27.20
FIIIs	22.52	22.42	21.90
DIIIs	10.36	9.74	9.51
Non-Institutional	39.93	40.64	41.38

Laurus Labs vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Bn)	FY23	FY24E	FY25E
Revenue	60.4	52.7	59.1
EBITDA	15.9	13.9	16.4
Net Profit	7.9	6.0	7.3
Total Assets	76.6	84.9	90.2
ROCE (%)	18%	12%	13%
ROE (%)	21%	14%	15%

Source: Company, Keynote Capitals Ltd.

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Q1 FY24 Result Update

Result Highlight (Rs. Mn)

Particulars	Q1 FY24	Q1 FY23	Change % (YoY)	Q4 FY23	Change % (QoQ)	FY23
Revenue	11,818	15,389	-23%	13,809	-14%	60,406
COGS	5,839	6,530	-11%	6,946	-16%	27,743
Gross Profit	5,979	8,860	-33%	6,863	-13%	32,662
Gross Profit %	50.6%	57.6%	-698 Bps	49.7%	89 Bps	54.1%
Employee Cost	1,599	1,520	5%	1,343	19%	5,806
Other expenses	2,712	2,798	-3%	2,665	2%	10,934
EBITDA	1,667	4,542	-63%	2,855	-42%	15,922
EBITDA %	14.1%	29.5%	-1540 Bps	20.7%	-657 Bps	26.4%
Depreciation	906	708	28%	870	4%	3,241
EBIT	762	3,834	-80%	1,985	-62%	12,681
EBIT %	6.4%	24.9%	-1847 Bps	14.4%	-793 Bps	21.0%
Finance Cost	392	293	34%	531	-26%	1,652
Other Income	36	18	106%	17	111%	60
PBT	406	3,559	-89%	1,471	-72%	11,089
PBT %	3.4%	23.1%	-1968 Bps	10.6%	-722 Bps	18.3%
Tax	122	1,033	-88%	399	-69%	3,123
PAT	284	2,525	-89%	1,072	-74%	7,966
EPS	0.46	4.66	-	1.90	-	14.64

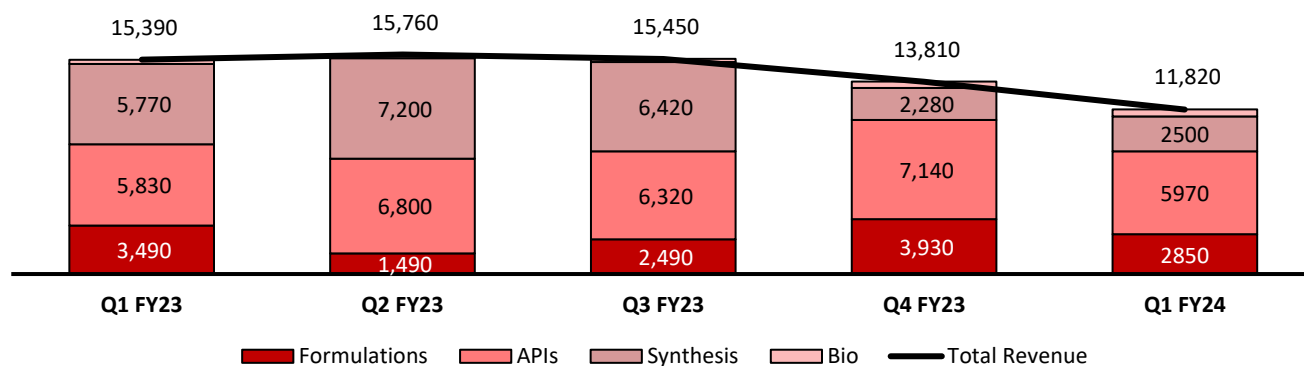
Segment Highlights (Rs. Mn)

Particulars	Q1 FY24	Q1 FY23	Change % (YoY)	Q4 FY23	Change % (QoQ)	FY23
Revenue						
FDFs	2,850	3,490	-18%	3,930	-27%	11,400
APIs	5,970	5,830	2%	7,140	-16%	26,090
Synthesis	2,500	5,770	-57%	2,280	10%	21,670
Bio	500	300	67%	460	9%	1,250

Source: Company, Keynote Capitals Ltd.

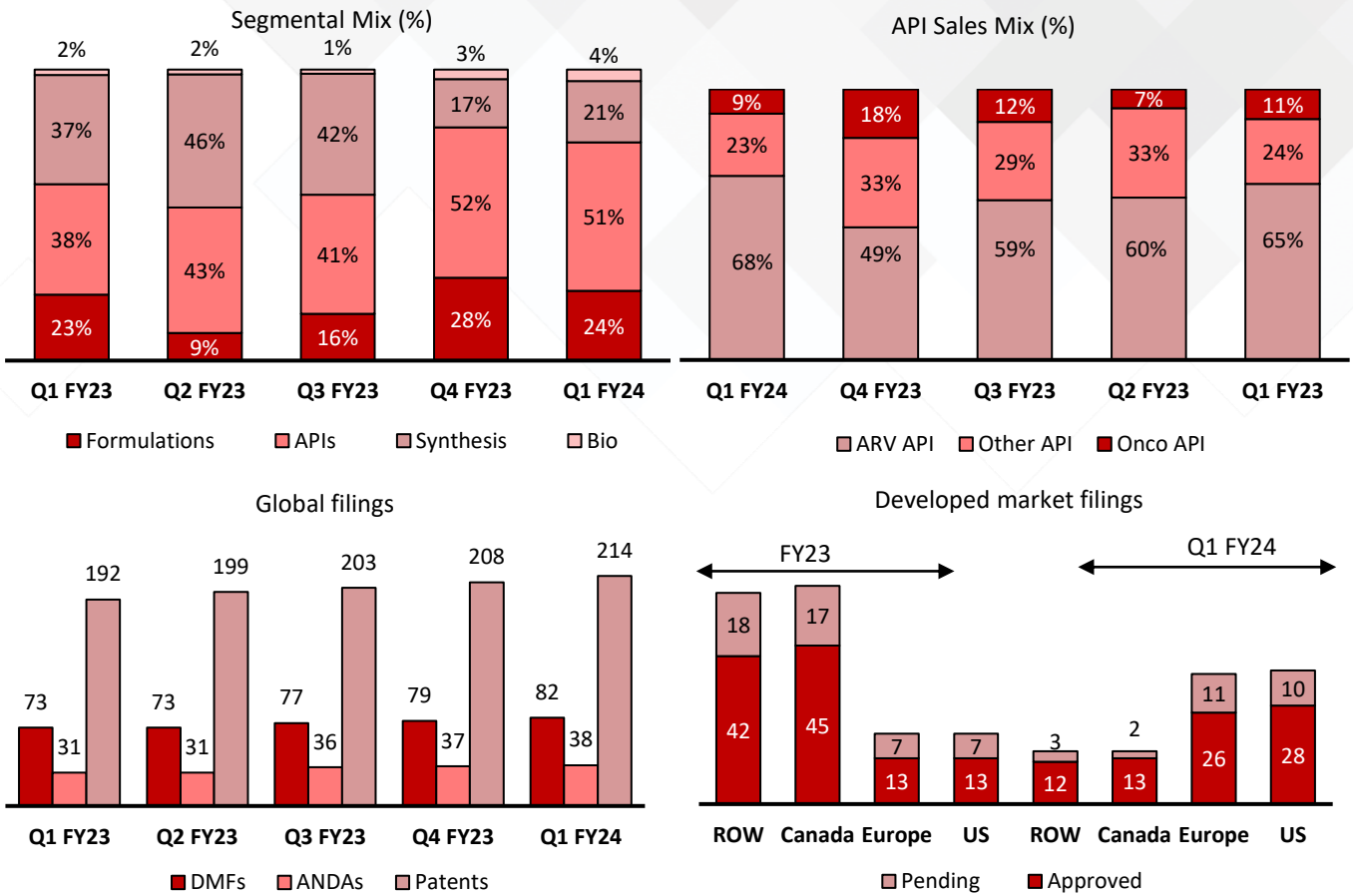
Quarterly business progression

Segmental Revenue Mix (Rs. Mn)



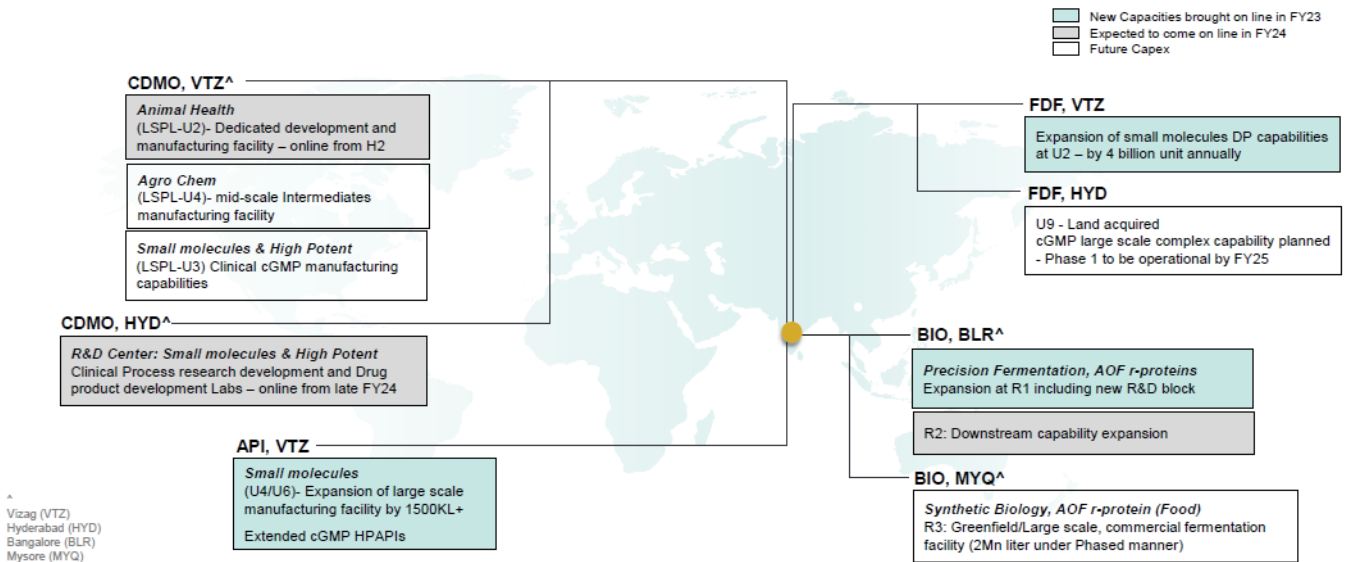
Source: Company, Keynote Capitals Ltd.

Laurus Labs Ltd | Quarterly Update



Source: Company, Keynote Capitals Ltd.

Laurus's capex plans



Source: Company, Keynote Capitals Ltd.

Q1 FY24 Conference Call Takeaways

Business Update

- Q1 FY24 was challenging, driven by lower revenues and higher upfront costs, and also rescheduling some of the supplies by global ARV agencies. When comparing YoY growth, the results appeared subdued as the base year had experienced robust revenue from the synthesis business.
- This de-growth is transient, and underlying demand for API and FDF business will revert to normalcy from Q2 FY24 based on the current order book.
- During the quarter, the company filed one ANDA, and three approvals were received (including tentative approvals).
- Capex guidance of Rs. 10 Bn in FY24 is intact, and the Company invested Rs. 2 Bn during the quarter.

API and Formulation segment

- In the formulation business, the underlying demand trend is healthy, but Q1 FY24 was impacted by global agencies' lower offtake in ARV business and weak pricing. Expecting rebound from Q2 FY24.
- API business has been impacted due to other APIs (-42% QoQ) and Oncology (-59% QoQ), and the Company expects a rebound from Q2 FY24 as CMO opportunities in high-growth APIs continue to look better. ARV business continues steady momentum and witnessed volume-led improvement, growing 6% on a YoY and 17% QoQ basis as the severe impact of ARV pricing has slowed down.

Synthesis & Bio segment

- Revenues declined on a YoY basis, given that a large PO was executed last year. Otherwise, baseline business tracking is healthy, and the project pipeline continues to increase.
- Signed first multi-year agreement with a leading Global Crop Protection major and manufacturing to begin in H2 FY25.
- A dedicated Animal Health manufacturing unit was inaugurated, and the Company expects to initiate commercial scale validations from Oct'23.
- Delivered strong growth in the Bio segment, supported by traction in CDMO business and partial booking of specific delayed shipments in the previous quarter.
- Greenfield R3 site to strengthen Laurus capabilities in AOF proteins and growth factors.

Gross and Operating Margins

- In Q1 FY24, gross margin declined due to changes in product mix and falling ARV prices compared to Q1 FY23. However, input raw material prices softened during the quarter; as a result, Q2 FY24 is expected to show relatively better margins.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	49,356	60,406	52,662	61,170	71,288
Growth %	3%	22%	-13%	16%	17%
Raw Material Expenses	21,339	27,297	25,278	28,138	32,079
Employee Expenses	4,696	5,574	5,793	6,117	6,829
Other Expenses	9,097	11,613	10,006	11,316	13,188
EBITDA	14,224	15,922	11,586	15,598	19,191
Growth %	-8%	12%	-27%	35%	23%
Margin%	28.8%	26.4%	22.0%	25.5%	26.9%
Depreciation	2,515	3,241	3,691	4,280	4,763
EBIT	11,709	12,681	7,894	11,319	14,428
Growth %	-13%	8%	-38%	43%	27%
Margin%	24%	21%	15%	19%	20%
Interest Paid	1,024	1,652	1,935	1,978	1,762
Other Income & exceptional	153	60	60	60	60
PBT	10,839	11,089	6,020	9,401	12,726
Tax	2,514	3,123	1,685	2,632	3,563
PAT	8,324	7,966	4,334	6,768	9,162
Others (Minorities, Associates)	45	1	-31	-31	-30
Net Profit	8,369	7,967	4,303	6,738	9,132
Growth %	-15%	-5%	-46%	57%	36%
Shares (Mn)	537.4	538.7	538.7	538.7	538.7
EPS	15.40	14.56	7.99	12.51	16.95

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	759	485	1,863	499	412
Current Investments	0	0	0	0	0
Debtors	13,542	15,804	16,325	18,963	22,099
Inventory	17,603	16,848	15,672	17,446	19,889
Short Term Loans & Advances	1,345	1,089	1,089	1,089	1,089
Other Current Assets	197	391	391	391	391
Total Current Assets	33,446	34,617	35,340	38,387	43,880
Net Block & CWIP	34,657	39,594	45,908	47,746	50,111
Long Term Investments	308	499	468	437	407
Other Non-current Assets	1,269	1,894	1,894	1,894	1,894
Total Assets	69,680	76,604	83,610	88,463	96,292
Creditors	8,764	7,107	6,025	7,478	8,631
Provision	542	851	851	851	851
Short Term Borrowings	9,107	9,958	9,958	9,958	9,958
Other Current Liabilities	8,397	6,408	6,408	6,408	6,408
Total Current Liabilities	26,810	24,323	23,242	24,694	25,847
Long Term Debt	5,963	7,614	11,614	8,614	6,614
Deferred Tax Liabilities	691	825	825	825	825
Other Long Term Liabilities	2,625	3,356	3,356	3,356	3,356
Total Non Current Liabilities	9,280	11,795	15,795	12,795	10,795
Paid-up Capital	1,075	1,077	1,077	1,077	1,077
Reserves & Surplus	32,437	39,298	43,385	49,786	58,462
Shareholders' Equity	33,512	40,375	44,462	50,863	59,539
Non Controlling Interest	79	111	111	111	111
Total Equity & Liabilities	69,680	76,604	83,610	88,463	96,292

Source: Company, Keynote Capitals Ltd. estimates

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	10,839	11,089	6,020	9,401	12,726
Adjustments	3,511	4,857	5,566	6,198	6,465
Change in Working Capital	-3,416	-3,153	-426	-2,958	-4,427
Total Tax Paid	-1,823	-2,855	-1,685	-2,632	-3,563
Cash flow from operating Activities	9,111	9,939	9,474	10,008	11,200
Net Capital Expenditure	-8,767	-9,875	-10,006	-6,117	-7,129
Change in investments	-276	-223	0	0	0
Other investing activities	-100	137	60	60	60
Cash flow from investing activities	-9,143	-9,961	-9,946	-6,057	-7,069
Equity raised / (repaid)	43.1	74.4	0	0	0
Debt raised / (repaid)	2,702	2,216	4,000	-3,000	-2,000
Dividend (incl. tax)	-859	-1,075	-215	-337	-457
Other financing activities	-1,584	-1,482	-1,935	-1,978	-1,762
Cash flow from financing activities	303	-266	1,850	-5,315	-4,219
Net Change in cash	270	-288	1,379	-1,364	-87

Valuation Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	15	15	8	13	17
Growth %	-16%	-5%	-45%	57%	36%
Book Value Per Share	62	75	83	95	111
Return Ratios					
Return on Assets (%)	13%	11%	5%	8%	10%
Return on Equity (%)	28%	21%	10%	14%	17%
Return on Capital Employed (%)	22%	18%	10%	13%	15%
Turnover Ratios					
Asset Turnover (x)	0.8	0.8	0.7	0.7	0.8
Sales / Gross Block (x)	1.5	1.4	1.0	1.0	1.1
Working Capital / Sales (x)	13%	14%	21%	21%	22%
Receivable Days	98	89	111	105	105
Inventory Days	285	230	235	215	212
Payable Days	162	109	99	82	85
Working Capital Days	222	210	247	238	232
Liquidity Ratios					
Current Ratio (x)	1.2	1.4	1.5	1.6	1.7
Interest Coverage Ratio (x)	11.6	7.7	4.1	5.8	8.2
Total Debt to Equity	0.5	0.5	0.5	0.4	0.3
Net Debt to Equity	0.5	0.5	0.4	0.4	0.3
Valuation					
PE (x)	38.3	20.1	42.3	27.0	19.9
Earnings Yield (%)	3%	5%	2%	4%	5%
Price to Sales (x)	6.4	2.6	3.5	3.0	2.6
Price to Book (x)	9.5	3.9	4.1	3.6	3.1
EV/EBITDA (x)	23.5	11.1	17.1	12.7	10.3
EV/Sales (x)	6.8	2.9	3.8	3.2	2.8

KEYNOTE Rating History

Date	Rating	Market price at recommendation	Upside/Downside
31 st March 2023	BUY	293	+35%
2 nd May 2023	BUY	312	+23%
31 st July 2023	BUY	352	+14%

Source: Company, Keynote Capitals Ltd. estimates

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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