

Laurus Labs Limited

23rd October 2023

Looking beyond near term headwinds

In Q2 FY24, Laurus Labs Limited (Laurus) experienced a decline in revenue by 22.3% on a YoY basis, led by a steep decline in the CDMO business, but the Company has shown a sequential growth of 3.6% in revenue. The Gross and EBITDA margins have shown sequential improvements of 195 Bps and 124 Bps, respectively. The capacity expansion is progressing well as Laurus is focused on expanding capacity in non-ARV and CDMO segments, which will help reduce the product concentration risk and further tap opportunities.

Intensified Focus on Business Diversification

The Company is strategically focused on expanding its CDMO business, strengthening its global leadership in high-potent APIs, and enhancing its technical expertise in biotechnologies for small molecule manufacturing. It expects most of the growth in formulations (non-ARV products) from FY '25 onwards, similar to the trend seen in its API business.

Strategic revamping for a stronger future

The Company expects growth in FY '25 from multiple sources like, 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. Over the past 2-3 years, the Company has made substantial investments, effectively doubling its oral solids capacity, increasing fermentation capacity by 18x and expanding reactor capacity by ~61%. While these expanded capacities are expected to make significant contributions from FY25, they are currently exerting pressure on overall costs and return measures.

Overcoming temporary financial challenges

The Company achieved a 3.6% sequential revenue growth in Q2 FY24, primarily attributed to the expansion in the formulation and API business. Further, the Company has also sequentially improved its Gross and EBITDA margins by 195 Bps and 124 Bps, respectively. The Company is confident of continuing the momentum on the back of a strong order book.

View & Valuation

Laurus is gearing up capacity expansion in non-ARV and CDMO segments, which will help to reduce product concentration risk. Further, the Company is expanding its footprint in developed markets through niche product pipelines. With the early signs of improvement evident in Q2 FY24, we anticipate this positive momentum to continue in H2 FY24. Thus, looking beyond near-term headwinds, we have revised our estimates and maintain a BUY rating on Laurus Labs Ltd with a target price of Rs. 447 (14.4x FY25E EV/EBITDA multiple).

BUY

CMP Rs. 387

TARGET Rs. 447 (+15%)

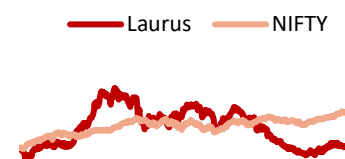
Company Data

Bloomberg Code	Laurus IN
MCAP (Rs. Mn)	208,276
O/S Shares (Mn)	539
52w High/Low	530 / 280
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	941

Shareholding Pattern %

	Sep 23	Jun 23	Mar 22
Promoters	27.20	27.20	27.20
FIIIs	24.03	22.52	22.42
DIIIs	11.01	10.36	9.74
Non-Institutional	37.76	39.93	40.64

Laurus Labs vs Nifty



Oct, 20 Oct, 21 Oct, 22 Oct, 23

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Bn)	FY23	FY24E	FY25E
Revenue	60.4	50.2	63.5
EBITDA	15.9	7.8	16.2
Net Profit	7.9	1.6	7.1
Total Assets	76.6	80.6	89.2
ROCE (%)	18%	6%	14%
ROE (%)	21%	4%	16%

Source: Company, Keynote Capitals Ltd.

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Q2 FY24 Result Update

Result Highlight (Rs. Mn)

Particulars	Q2 FY24	Q2 FY23	Change % (Y-o-Y)	Q1 FY24	Change % (Q-o-Q)	H1FY24	H1FY23	Change % (Y-o-Y)	FY23
Revenue	12,245	15,759	-22.3%	11,818	3.6%	24,062	31,148	-23%	60,406
COGS	5,811	7,074	-18%	5,839	0%	11,650	13,604	-14%	27,743
Gross Profit	6,434	8,685	-26%	5,979	8%	12,412	17,545	-29%	32,662
Gross Profit %	52.5%	55.1%	-257 Bps	50.6%	195 Bps	51.6%	56.3%	-474 Bps	54.1%
Employee Cost	1,639	1,470	11.5%	1,599	3%	3,239	2,990	8%	5,806
Other expenses	2,916	2,726	7.0%	2,712	8%	5,628	5,524	2%	10,934
EBITDA	1,879	4,489	-58%	1,667	13%	3,546	9,031	-61%	15,922
EBITDA %	15.3%	28.5%	-1314 Bps	14.1%	124 Bps	14.7%	29.0%	-1426 Bps	26.4%
Depreciation	934	818	14%	906	3%	1,839	1,526	21%	3,241
EBIT	945	3,671	-74%	762	24%	1,707	7,505	-77%	12,681
EBIT %	7.7%	23.3%	-1558 Bps	6.4%	127 Bps	7.1%	24.1%	-1700 Bps	21.0%
Finance Cost	424	401	6%	392	8%	816	694	18%	1,652
Other Income	18	11	60%	36	-51%	54	29	88%	60
PBT	539	3,281	-84%	406	33%	945	6,840	-86%	11,089
PBT %	4.4%	20.8%	-1641 Bps	3.4%	97 Bps	3.9%	21.9%	-1802 Bps	18.3%
Tax	146	943	-85%	122	20%	268	1,976	-86%	3,123
Share of Associate	-22	-4	-	-16	-	-38	-7	-	-32
PAT	371	2,334	-84%	268	39%	639	4,856	-87%	7,934
EPS	0.68	4.32	-	0.46	-	1.14	8.98	-	14.64

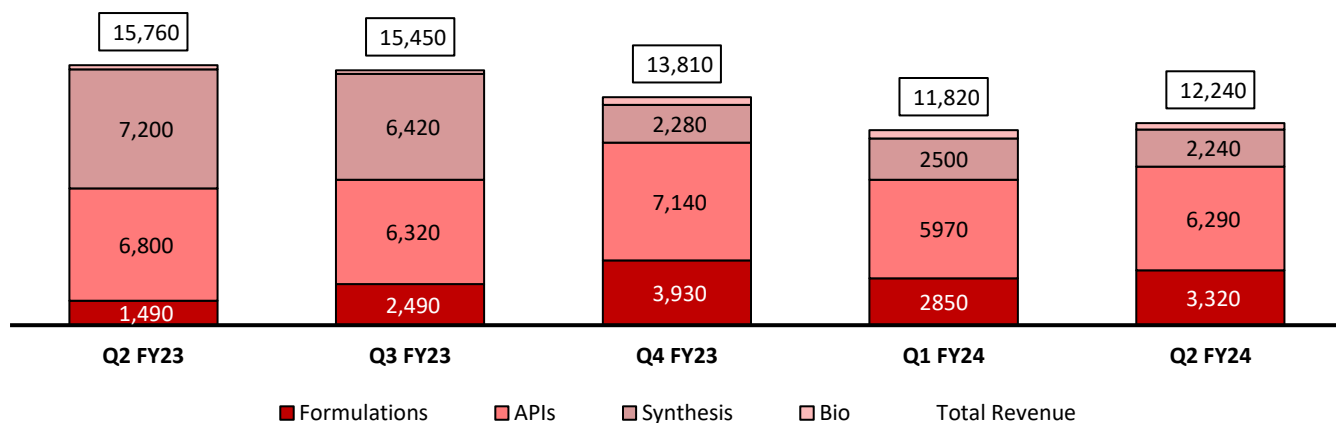
Segment Highlights (Rs. Mn)

Particulars	Q2 FY24	Q2 FY23	Change % (Y-o-Y)	Q1 FY24	Change % (Q-o-Q)	H1FY24	H1FY23	Change % (Y-o-Y)	FY23
Revenue									
FDFs	3,320	1,490	123%	2,850	16%	6,170	4,980	129%	11,400
APIs	6,290	6,800	-8%	5,970	5%	12,260	12,630	107%	26,090
Synthesis	2,240	7,200	-69%	2,500	-10%	4,740	12,970	67%	21,670
Bio	390	270	44%	500	-22%	890	570	119%	1,250

Source: Company, Keynote Capitals Ltd.

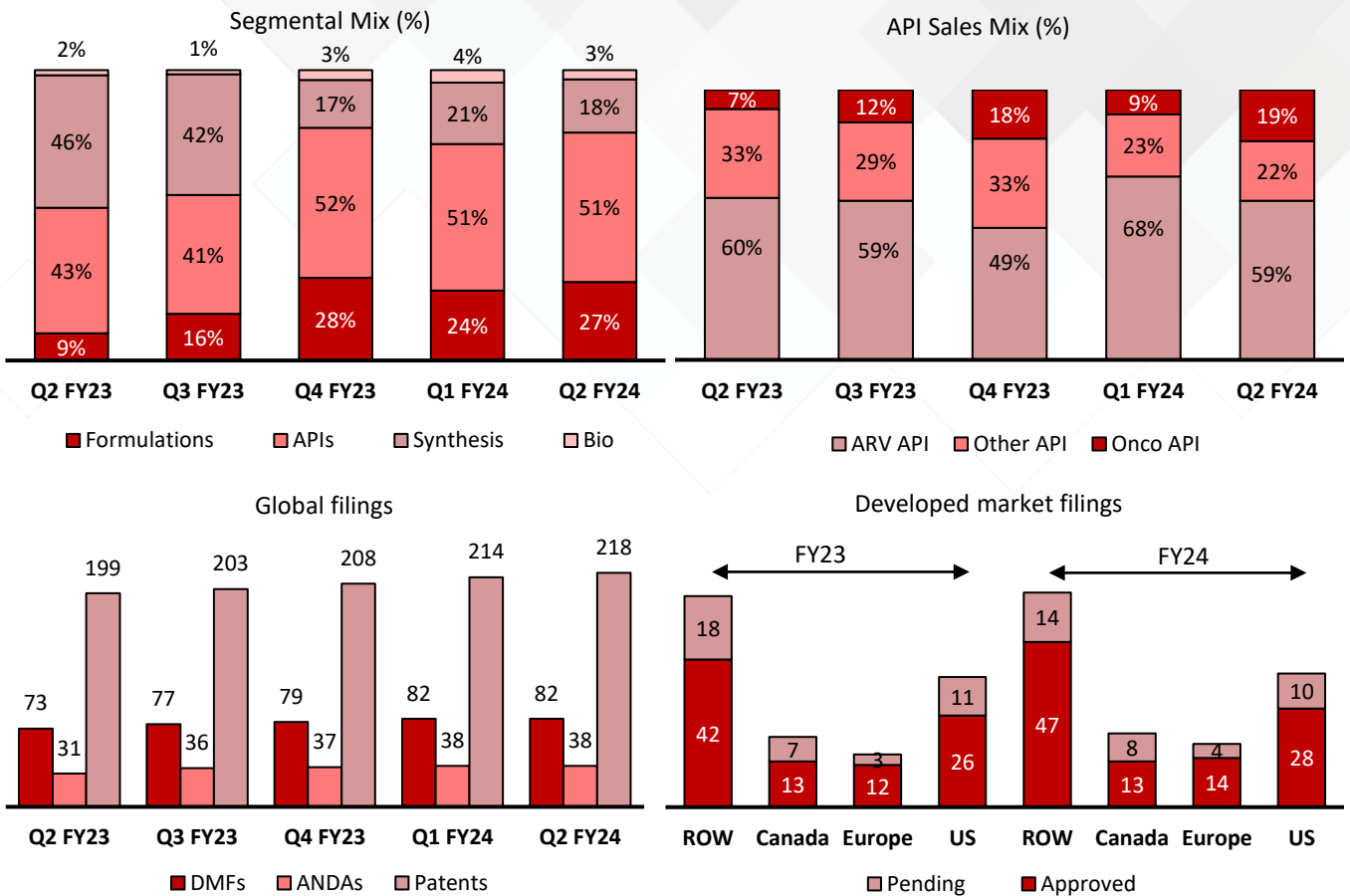
Quarterly business progression

Segmental Revenue Mix (Rs. Mn)



Source: Company, Keynote Capitals Ltd.

Laurus Labs Ltd | Quarterly Update



Source: Company, Keynote Capitals Ltd.

Laurus's capex plans

CDMO, VTZ^A

Animal Health (AH)
(LSPL-U2)- Development & Mfg. facility
Commercial activities started at 1st block in Oct'23 and further expansion ongoing

Agro Chem
(LSPL-U4)- mid-scale Intermediates mfg.

Small molecules & High Potent (HP)
(LSPL-U3) Clinical cGMP mfg capabilities

CDMO, HYD^A

R&D Center: Small molecules & HP's
Clinical Process research development and Drug product development Labs – online from late FY24

API, VTZ

Small molecules
(U4/U6)- Expansion of large scale mfg. by 1500KL+
Extended cGMP HP APIs

BIO, BLR^A

Precision Fermentation, AOF r-proteins
Expansion at R1 including new R&D block

R2: Downstream capability expansion on track for Dec'23 delivery

BIO, MYQ^A

Synthetic Biology, AOF r-protein (Food)
R3: Greenfield/Large scale, commercial fermentation facility (~2Mn liters under Phased manner)

FDF, VTZ

Expansion of small molecules DP capabilities at U2 – by 4 billion unit annually

■ New Capacities brought on line in FY23
■ Expected to come on line in FY24
□ Future Capex

Source: Company, Keynote Capitals Ltd.

Q2 FY24 Conference Call Takeaways

Business Update

- In Q2 FY24, revenue fell by 22% on a YoY basis due to the absence of strong CDMO-synthesis revenue compared to previous year. However, on a QoQ basis revenue increased by 3.6%, supported by formulations and API business. Excluding CDMO-synthesis revenue, H1 FY24 and Q2 FY24 showed growth of 14% and 18%, respectively.
- Capex guidance for FY24 is Rs. 10 Bn, and the Company is on track to achieve it. Further, the Company has invested Rs. 3,850 Mn during the H1 FY24.
- ImmucoACT, an associate of Laurus Labs, has gained approval for India's first CAR-T cell therapy for r/r B-cell lymphomas and leukemia. Priced at Rs. 3-4 Mn per treatment, the initial facility can provide 500 treatments, with expansion plans to deliver an extra 2,500 treatments yearly by March 2025.

API and Formulation segment

- In Q2 FY24, API business de-grew by 7.5% on a YoY basis due to de-growth in other APIs (which includes cardiovascular, diabetes and asthma). This was largely due to temporary market dynamics and scheduling patterns from partners. Additionally, ARV API has also seen a de-growth. In contrast, Oncology API has shown strong growth, benefitting from regulatory challenges faced by other companies, consequently expanding Laurus Labs' market share. The oncology order book for H2 FY24 looks healthy.
- The formulation business has shown strong recovery and grew by 122.8%/16.5% on a YoY / QoQ basis. Strong growth on a YoY basis is driven by a low base in last year. This has been led by a recovery in ARV business and stable pricing. Overall, underlying demand is healthy. Further, growth in developed markets is aided by an expansion in market share.

Synthesis & Bio segment

- In Synthesis business revenues declined on a YoY basis, given a large CDMO business executed last year. Nonetheless, the baseline business remains healthy, and the project pipeline continues to scale up. Commercial scale validation supplies for animal health products have commenced.
- The synthesis business is poised for significant growth with the anticipated contributions from the Animal Health unit in H2 FY24 and the commencement of commercial manufacturing for agrochemical products in H2 FY25.
- The Company delivered strong growth in the Bio segment, supported by traction in the CDMO business along with customer addition. During the quarter, the Company increased its stake in Laurus Bio from 76.6% to 87.6% as management is confident of growing application of enzymes technology platform.

Gross and Operating Margins

- On a sequential basis, gross margins have improved, and EBITDA margins have also clocked a modest recovery as higher upfront expenses on growth projects continue to weigh on overall operating margins.

EBITDA margins are currently at ~15% compared to 20-25%+ levels seen historically.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	49,356	60,406	50,190	63,479	74,232
Growth %	3%	22%	-17%	26%	17%
Raw Material Expenses	21,339	27,297	24,091	29,200	33,404
Employee Expenses	4,696	5,574	6,776	6,348	7,111
Other Expenses	9,097	11,613	11,544	11,744	13,733
EBITDA	14,224	15,922	7,779	16,187	19,984
Growth %	-8%	12%	-51%	108%	23%
Margin%	28.8%	26.4%	15.5%	25.5%	26.9%
Depreciation	2,515	3,241	3,674	4,254	4,757
EBIT	11,709	12,681	4,105	11,933	15,227
Growth %	-13%	8%	-68%	191%	28%
Margin%	24%	21%	8%	19%	21%
Interest Paid	1,024	1,652	1,935	2,064	1,935
Other Income & exceptional	153	60	100	100	100
PBT	10,839	11,089	2,270	9,969	13,392
Tax	2,514	3,123	636	2,791	3,750
PAT	8,324	7,966	1,635	7,178	9,643
Others (Minorities, Associates)	45	1	-31	-31	-30
Net Profit	8,369	7,967	1,603	7,147	9,612
Growth %	-15%	-5%	-80%	346%	34%
Shares (Mn)	537.4	538.7	538.7	538.7	538.7
EPS	15.40	14.56	2.92	13.21	17.79

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	759	485	774	720	1,434
Current Investments	0	0	0	0	0
Debtors	13,542	15,804	15,559	19,044	21,527
Inventory	17,603	16,848	14,936	18,104	20,711
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	32,749	39,348	45,152
Net Block & CWIP	34,657	39,594	45,456	47,550	50,217
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	80,567	89,229	97,669
Creditors	8,764	7,107	5,545	8,416	9,723
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	22,761	25,632	26,939
Long Term Debt	5,963	7,614	11,614	10,614	8,614
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	14,795	12,795
Paid-up Capital	1,075	1,077	1,077	1,077	1,077
Reserves & Surplus	32,437	39,298	40,822	47,613	56,746
Shareholders' Equity	33,512	40,375	41,900	48,691	57,824
Non Controlling Interest	79	111	111	111	111
Total Equity & Liabilities	69,680	76,604	80,567	89,229	97,669

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	2,270	9,969	13,392
Adjustments	3,511	4,857	5,509	6,218	6,591
Change in Working Capital	-3,416	-3,153	596	-3,782	-3,783
Total Tax Paid	-1,823	-2,855	-636	-2,791	-3,750
Cash flow from operating Activities	9,111	9,939	7,739	9,614	12,451
Net Capital Expenditure	-8,767	-9,875	-9,536	-6,348	-7,423
Change in investments	-276	-223	0	0	0
Other investing activities	-100	137	100	100	100
Cash flow from investing activities	-9,143	-9,961	-9,436	-6,248	-7,323
Equity raised / (repaid)	43.1	74.4	0	0	0
Debt raised / (repaid)	2,702	2,216	4,000	-1,000	-2,000
Dividend (incl. tax)	-859	-1,075	-79	-356	-479
Other financing activities	-1,584	-1,482	-1,935	-2,064	-1,935
Cash flow from financing activities	303	-266	1,986	-3,420	-4,414
Net Change in cash	270	-288	290	-54	714

Valuation Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	15	15	3	13	18
Growth %	-16%	-5%	-80%	346%	34%
Book Value Per Share	62	75	78	91	108
Return Ratios					
Return on Assets (%)	13%	11%	2%	8%	10%
Return on Equity (%)	28%	21%	4%	16%	18%
Return on Capital Employed (%)	22%	18%	6%	14%	16%
Turnover Ratios					
Asset Turnover (x)	0.8	0.8	0.6	0.7	0.8
Sales / Gross Block (x)	1.5	1.4	1.0	1.0	1.1
Working Capital / Sales (x)	13%	14%	20%	19%	22%
Receivable Days	98	89	114	99	100
Inventory Days	285	230	241	207	212
Payable Days	162	109	104	79	92
Working Capital Days	222	210	251	227	220
Liquidity Ratios					
Current Ratio (x)	1.2	1.4	1.4	1.5	1.7
Interest Coverage Ratio (x)	11.6	7.7	2.2	5.8	7.9
Total Debt to Equity	0.5	0.5	0.5	0.4	0.3
Net Debt to Equity	0.5	0.5	0.5	0.4	0.3
Valuation					
PE (x)	38.3	20.1	134.7	30.2	22.5
Earnings Yield (%)	3%	5%	1%	3%	4%
Price to Sales (x)	6.4	2.6	4.3	3.4	2.9
Price to Book (x)	9.5	3.9	5.2	4.4	3.7
EV/EBITDA (x)	23.5	11.1	29.9	14.4	11.6
EV/Sales (x)	6.8	2.9	4.6	3.7	3.1

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%
23 rd October 2023	BUY	387	+15%

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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