

Laurus Labs Limited

29th April 2024

Near term positive priced in

In Q4 FY24, Laurus Labs Limited (Laurus) has delivered a revenue growth of 4.3% on a YoY basis, driven by continued strength in FDF and good sequential recovery across CDMO and API business, supported by stabilization of ARV sales. Gross margins have seen a sequential decline of 451 Bps from 54.4% in Q3FY24 to 49.8% in Q4FY24 due to product mix as contribution from CDMO & Bio, which are high margin business has reduced during the quarter. EBITDA margins have improved sequentially from 15.2% in Q3FY24 to 16.8% in Q4FY24, benefitting from higher sales that partly absorb idle costs. 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 FY25 onwards, similar to the trend seen in its API business.

Strategic revamping for a stronger future

The Company expects growth in FY25 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, green shoots visible

The Company has consistently improved its gross margin from Q4 FY23 onwards but EBITDA margins failed to move in sync until now, where during the quarter it has improved by 159 Bps sequentially benefitting from higher sales that partly absorb idle costs. Management is confident about improvement in EBITDA margins in subsequent quarters on the back of 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. But market seems to have priced in a lot of these optimism in the price and thus we have revised our estimates and changed our rating from BUY to NETURAL with a target price of Rs. 445 (17x FY25E EV/EBITDA multiple).

NEUTRAL

CMP Rs. 437

TARGET Rs. 445 (+2%)

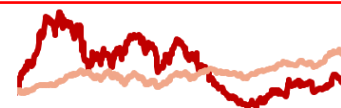
Company Data

Bloomberg Code	Laurus IN
MCAP (Rs. Mn)	235,582
O/S Shares (Mn)	539
52w High/Low	471 / 280
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	900

Shareholding Pattern %

	Mar 24	Dec 23	Sep 23
Promoters	27.19	27.20	27.20
FIIIs	25.98	24.03	22.52
DIIIs	11.78	11.01	10.36
Non-Institutional	35.07	37.76	39.93

Laurus Labs vs Nifty



Apr, 21	Apr, 22	Apr, 23	Apr, 24

— Laurus — NIFTY

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Bn)	FY23	FY24	FY25E
Revenue	60.4	50.4	62.1
EBITDA	15.9	7.8	15.5
Net Profit	8.0	1.6	6.8
Total Assets	76.6	83.9	91.5
ROCE (%)	18%	5%	13%
ROE (%)	21%	4%	15%

Source: Company, Keynote Capitals Ltd.

Devin Joshi, Research Analyst
Devin@keynoteindia.net

Q4 FY24 Result Update

Result Highlight (Rs. Mn)

Particulars	Q4 FY24	Q4 FY23	Change % (Y-o-Y)	Q3 FY24	Change % (Q-o-Q)	FY24	FY23	Change % (Y-o-Y)
Revenue	14,397	13,809	4.3%	11,949	20.5%	50,408	60,406	-16.6%
COGS	7,220	6,946	3.9%	5,454	32.4%	24,324	27,743	-12.3%
Gross Profit	7,177	6,863	4.6%	6,495	10.5%	26,084	32,662	-20.1%
Gross Profit %	49.8%	49.7%	15 Bps	54.4%	-451 Bps	51.7%	54.1%	-233 Bps
Employee Cost	1,611	1,343	20.0%	1,550	4.0%	6,399	5,806	10.2%
Other expenses	3,151	2,665	18.2%	3,131	0.6%	11,910	10,934	8.9%
EBITDA	2,415	2,855	-15.4%	1,814	33.1%	7,775	15,922	-51.2%
EBITDA %	16.8%	20.7%	-390 Bps	15.2%	159 Bps	15.4%	26.4%	-1093 Bps
Depreciation	1,023	870	17.5%	984	3.9%	3,846	3,241	18.7%
EBIT	1,392	1,985	-29.9%	830	67.7%	3,929	12,681	-69.0%
Finance Cost	505	531	-4.9%	508	-0.6%	1,829	1,652	10.7%
Other Income	185	17	983.6%	24	662.6%	263	60	339.0%
PBT	1,073	1,471	-27.1%	346	209.8%	2,364	11,089	-78.7%
Tax	320	399	-19.9%	95	238.1%	682	3,123	-78.2%
Share of Associate	-3	-20		-18		-59	-32	
PAT	750	1,053	-28.7%	233	221.4%	1,623	7,934	-79.5%
EPS	1.40	1.90	-	0.43	-	2.97	14.64	-

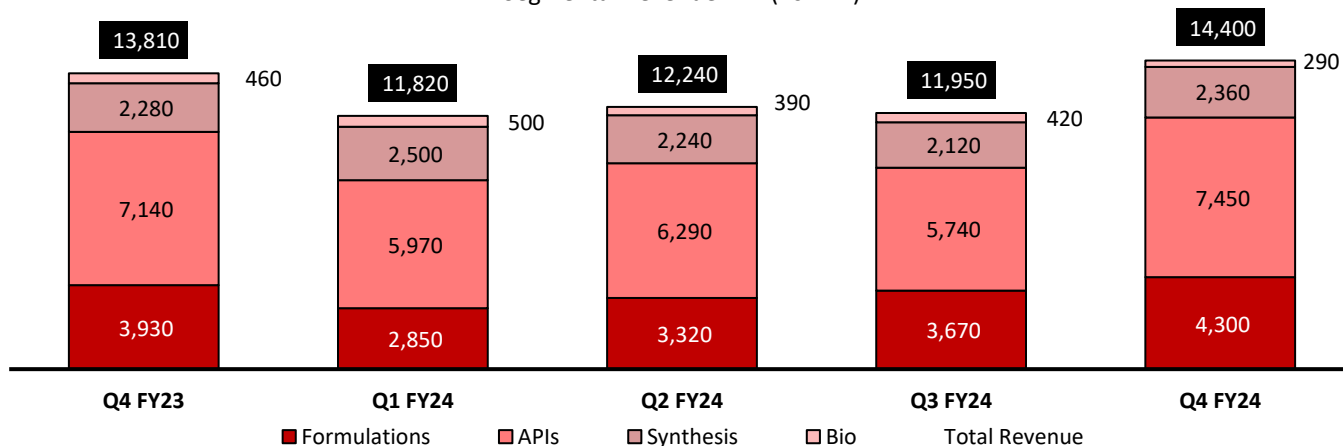
Segment Highlights (Rs. Mn)

Particulars	Q4 FY24	Q4 FY23	Change % (Y-o-Y)	Q3 FY24	Change % (Q-o-Q)	FY24	FY23	Change % (Y-o-Y)
Revenue								
FDFs	4,300	3,930	9%	3,670	17%	14,140	11,400	24%
APIs	7,450	7,140	4%	5,740	30%	25,450	26,090	-2%
Synthesis	2,360	2,280	4%	2,120	11%	9,220	21,670	-57%
Bio	290	460	-37%	420	-31%	1,600	1,250	28%

Source: Company, Keynote Capitals Ltd.

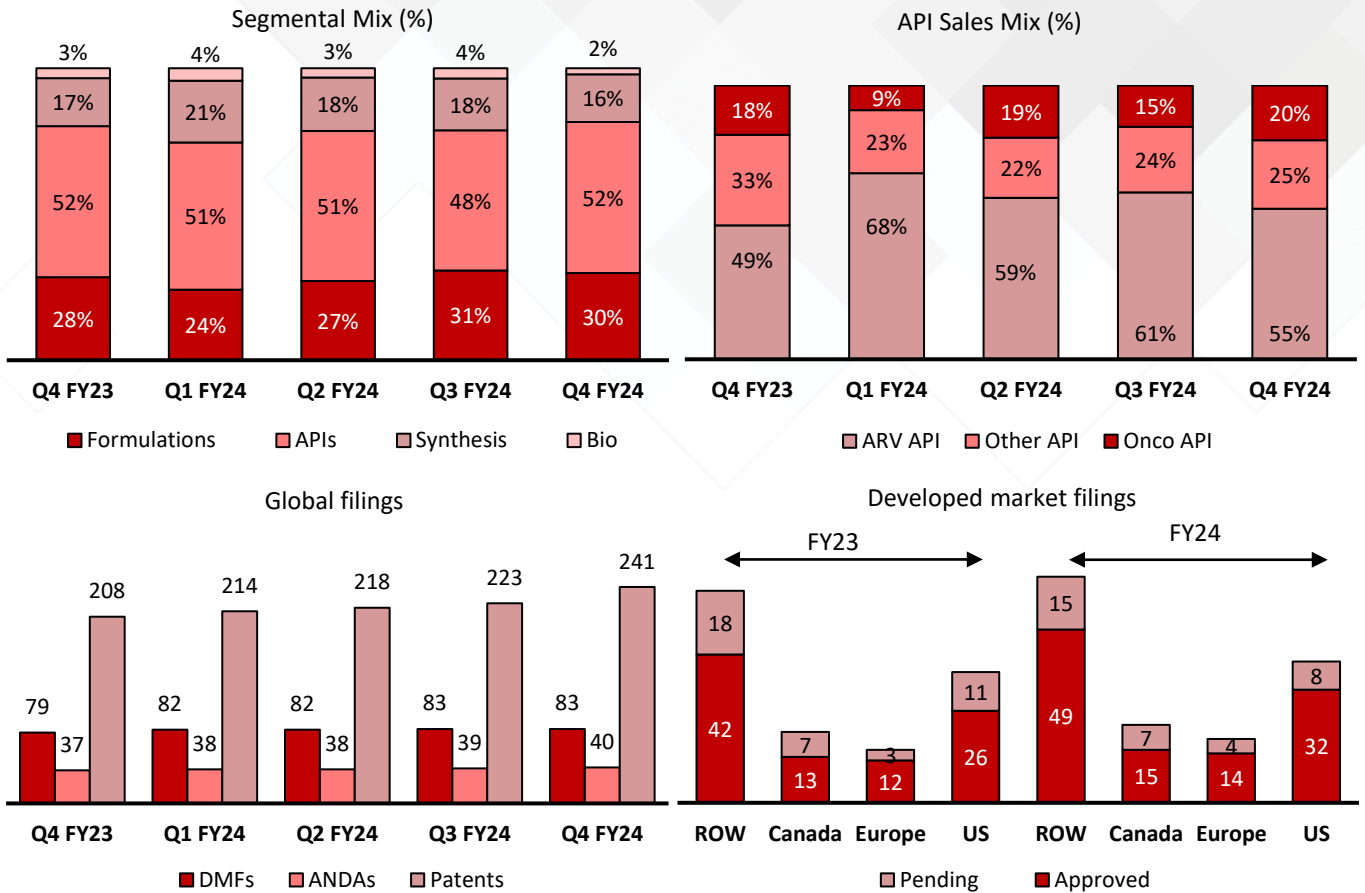
Quarterly business progression

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^

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

Crop Sciences (LSPL-U4)- mid-scale Intermediates mfg – online from late FY25

CDMO, HYD^

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

API, VTZ

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

BIO, BLR^

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

R2: Extended Downstream capability

BIO, MYQ^

Synthetic Biology, AOF r-protein (Food)
 R3: Commercial scale fermentation facility (~2Mn liters capacity u/Phased manner)
 Ground broken – Target operation from 1Q/FY27

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 ☑ Capex brought online in 3Q FY24 Future Capex

Source: Company, Keynote Capitals Ltd.

Q4 FY24 Conference Call Takeaways

Business Update

- In Q4 FY24, revenue grew by 4.3%/20.5% on a YoY/QoQ basis, respectively, driven by continued strength in FDF and good sequential recovery across CDMO and API business, supported by stabilisation of ARV sales. Excluding CDMO-synthesis revenue, FY24 showed a growth of 9%.
- Gross margins have seen a sequential decline of 451 Bps due to product mix as contribution from CDMO & Bio, which are high margin business has reduced during the quarter. EBITDA margins have improved sequentially, benefitting from higher sales that partly absorb idle costs.
- R&D spending is 4.8% of revenue, including spending on cell and gene therapy. Higher R&D spending is expected to enhance the pipeline.
- The capex incurred in FY24 was Rs. 7 Bn, and management expects to incur capex in a similar range in FY25.
- NexCAR19 was commercially launched in India to treat certain cancer patients. A large integrated CAR-T facility is under construction to service more patients and make treatment more affordable. It is to be operationalised by Q3 FY25.

API and Formulation segment

- In Q4 FY24, API business delivered sequential growth of ~30% across all three businesses. Other API (+35.2%) was led by CMO and high ARV volumes (+17%), and record Onco API (+73%), supported by new capacity addition. The other API segment experienced subdued pricing. The current order book of the API basket looks encouraging.
- The formulation business growth is driven by volume-led ARV recovery, stable pricing trend and growth in the developed market. Launched two new products in the US in Q4 and at least two under the launch phase. Further, the Company has signed a CMO JV between Laurus/KRKA (51:49) to enhance the generic portfolio and market presence. Small molecule capacities at 10 Bn units p.a., underutilization is gradually moving up.
- Eight product dossiers were filed, and nine approvals (including tentative approvals) were received.

Synthesis & Bio segment

- In Synthesis, business revenues have improved sequentially and are prepared for growth. RFP momentum is strong with increased commercial meetings.
- The Animal Health unit has started commercial validation and scaling up well supplies, which are expected in FY25+. Further, an R&D centre will be online by June '24 to support new business. A multiyear MSA has been signed with a leading crop protection company, and facility qualification is expected by the end of FY25.
- In the Bio segment, Q4 was soft due to QoQ variability in customer orders. R2 downstream is to be fully optimised by next year. A fermentation facility is under construction at Vizag and Mysore to speed up the creation of additional manufacturing facilities. This facility will be ready by FY26.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Net Sales	49,356	60,406	50,408	62,131	71,680
Growth %	3%	22%	-17%	23%	15%
Raw Material Expenses	21,339	27,297	24,324	28,891	32,973
Employee Expenses	4,696	5,574	6,399	6,213	6,867
Other Expenses	9,097	11,613	11,910	11,494	13,261
EBITDA	14,224	15,922	7,775	15,533	18,580
Growth %	-8%	12%	-51%	100%	20%
Margin%	28.8%	26.4%	15.4%	25.0%	25.9%
Depreciation	2,515	3,241	3,846	4,219	4,741
EBIT	11,709	12,681	3,929	11,314	13,838
Growth %	-13%	8%	-69%	188%	22%
Margin%	24%	21%	8%	18%	19%
Interest Paid	1,024	1,652	1,829	2,046	1,968
Other Income & exceptional	153	60	263	263	263
PBT	10,839	11,089	2,364	9,531	12,134
Tax	2,514	3,123	682	2,669	3,397
PAT	8,324	7,966	1,682	6,862	8,736
Others (Minorities, Associates)	45	1	-77	-58	-57
Net Profit	8,369	7,967	1,606	6,804	8,679
Growth %	-15%	-5%	-80%	324%	28%
Shares (Mn)	537.4	538.7	538.7	538.7	538.7
EPS	15.40	14.56	2.98	12.63	16.11

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	10,839	11,089	2,364	9,531	12,134
Adjustments	3,511	4,857	5,629	6,002	6,446
Change in Working Capital	-3,416	-3,153	-290	-3,719	-933
Total Tax Paid	-1,823	-2,855	-1,046	-2,669	-3,397
Cash flow from operating Activities	9,111	9,939	6,657	9,146	14,249
Net Capital Expenditure	-8,767	-9,875	-6,760	-7,145	-7,168
Change in investments	-276	-223	-800	0	0
Other investing activities	-100	137	-664	263	263
Cash flow from investing activities	-9,143	-9,961	-8,224	-6,882	-6,905
Equity raised / (repaid)	43.1	74.4	25.6	0	0
Debt raised / (repaid)	2,702	2,216	5,411	-500	-1,500
Dividend (incl. tax)	-859	-1,075	-862	-340	-434
Other financing activities	-1,584	-1,482	-2,076	-2,046	-1,968
Cash flow from financing activities	303	-266	2,498	-2,887	-3,902
Net Change in cash	270	-288	931	-623	3,442

Valuation Ratios

Particulars	FY22	FY23	FY24	FY25E	FY26E
Per Share Data					
EPS	15	15	3	13	16
Growth %	-16%	-5%	-80%	324%	28%
Book Value Per Share	62	75	76	88	104

Return Ratios

Return on Assets (%)	13%	11%	2%	8%	9%
Return on Equity (%)	28%	21%	4%	15%	17%
Return on Capital Employed (%)	22%	18%	5%	13%	14%

Turnover Ratios

Asset Turnover (x)	0.8	0.8	0.6	0.7	0.7
Sales / Gross Block (x)	1.5	1.4	1.0	1.0	1.1
Working Capital / Sales (x)	13%	14%	17%	14%	17%
Receivable Days	98	89	117	109	105
Inventory Days	285	230	265	242	236
Payable Days	162	109	124	136	135
Working Capital Days	222	210	258	215	206

Liquidity Ratios

Current Ratio (x)	1.2	1.4	1.2	1.3	1.4
Interest Coverage Ratio (x)	11.6	7.7	2.3	5.7	7.2
Total Debt to Equity	0.5	0.5	0.6	0.5	0.4
Net Debt to Equity	0.5	0.5	0.6	0.5	0.3

Valuation

PE (x)	38.3	20.1	146.6	34.6	27.1
Earnings Yield (%)	3%	5%	1%	3%	4%
Price to Sales (x)	6.4	2.6	4.7	3.8	3.3
Price to Book (x)	9.5	3.9	5.7	5.0	4.2
EV/EBITDA (x)	23.5	11.1	61.6	30.8	25.8
EV/Sales (x)	6.8	2.9	9.5	7.7	6.7

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Cash, Cash equivalents & Bank	759	485	1,417	794	4,236
Current Investments	0	0	0	0	0
Debtors	13,542	15,804	16,629	20,503	20,787
Inventory	17,603	16,848	18,454	19,935	22,751
Short Term Loans & Advances	1,345	1,089	1,752	1,752	1,752
Other Current Assets	197	391	98	98	98
Total Current Assets	33,446	34,617	38,350	43,082	49,625
Net Block & CWIP	34,657	39,594	43,129	46,055	48,481
Long Term Investments	308	499	1,240	1,182	1,125
Other Non-current Assets	1,269	1,894	1,152	1,152	1,152
Total Assets	69,680	76,604	83,870	91,471	100,383
Creditors	8,764	7,107	10,512	12,149	14,316
Provision	542	851	610	610	610
Short Term Borrowings	9,107	9,958	17,170	17,170	17,170
Other Current Liabilities	8,397	6,408	2,830	2,830	2,830
Total Current Liabilities	26,810	24,323	31,123	32,759	34,926
Long Term Debt	5,963	7,614	8,604	8,104	6,604
Deferred Tax Liabilities	691	825	570	570	570
Other Long Term Liabilities	2,625	3,356	2,418	2,418	2,418
Total Non Current Liabilities	9,280	11,795	11,592	11,092	9,592
Paid-up Capital	1,075	1,077	1,078	1,078	1,078
Reserves & Surplus	32,437	39,298	40,032	46,495	54,741
Shareholders' Equity	33,512	40,375	41,110	47,573	55,819
Non Controlling Interest	79	111	46	46	46
Total Equity & Liabilities	69,680	76,604	83,870	91,471	100,383

Source: Company, Keynote Capitals Ltd. estimates

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%
25 th January 2024	BUY	379	+12%
29 th April 2024	NEUTRAL	437	+2%

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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Keynote Capitals Limited (CIN: U67120MH1995PLC088172)

Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

Registered Office: 9th Floor, The Ruby, Senapati Bapat Marg, Dadar West, Mumbai – 400028, Maharashtra. Tel: 022 – 68266000.

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