

India

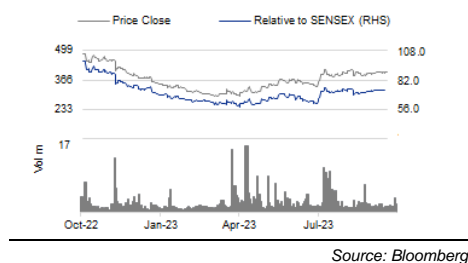
REDUCE (no change)

Consensus ratings*: Buy 9 Hold 3 Sell 4

Current price: Rs401
 Target price: ▲ Rs307
 Previous target: Rs294
 Up/downside: -23.4%
 InCred Research / Consensus: -17.5%

Reuters:
 Bloomberg: LAURUS IN
 Market cap: US\$2,598m
 Rs215,972m
 Average daily turnover: US\$12.4m
 Rs1029.2m
 Current shares o/s: 538.7m
 Free float: 72.8%

*Source: Bloomberg



Price performance	1M	3M	12M
Absolute (%)	3.7	15.0	(17.5)
Relative (%)	4.7	17.2	(25.2)

Major shareholders	% held
Promoters	27.2
Capital group	9.4
Amansa	4.1

Analyst(s)

**Praful BOHRA**

T (91) 22 4161 1552
 E praful.bohra@incredcapital.com

Kashish THAKUR

T (91) 22 4161 1549
 E kashish.thakur@incredcapital.com

Laurus Labs**Dismal 2Q; recovery likely from 2HFY24F**

- Sharp 30%+ miss in 2QFY24 EBITDA; 2Q performance broadly flattish qoq against expectations of a recovery.
- Without any specific guidance, Laurus Labs' management expects 2HFY24F to be better (aptly factored in consensus estimates).
- We cut FY24F/25F EPS by 25%/8%, respectively. While earnings recovery has been largely factored in, the pace & extent of recovery has been dismal so far.

Another large miss in 2QFY24

As against expectations of a recovery in 2QFY24, Laurus Labs disappointed sharply on revenue as well as EBITDA fronts with a 10%/30% miss, respectively. Gross margin expanded by 190bp qoq while the EBITDA miss was largely on account of sales miss and front-loaded expenses for recently added capacities and new initiatives. The improvement in the FDF business (+16% qoq) and oncology API (+122% qoq) was in line with 1Q management commentary, although the CDMO business (-10% qoq) and antiretroviral APIs business (-8% qoq) led to the miss.

What next?

Laurus Labs has started the commercial validation process for its animal health product and expects to scale up from 2HFY24F. The company has also signed a multi-year agro-chem manufacturing contract, which should see commercialization by 2HFY25F. The product is still under patent, and margins are likely to be good, given the complex chemistries involved. Laurus Labs also expects to sign one more contract in this space soon. It has expanded API/formulations capacities by 30%/50%, respectively, over FY22-23 and is spending Rs20bn over FY23-24F, of which Rs8bn is for custom synthesis/bio-ingredients business. Laurus Labs refrained from giving guidance (flat revenue guidance earlier); we build in a 4% decline in FY24F revenue and a 14% recovery from FY25F.

Recent approval for Car-T cancer therapy and its revenue potential

ImmunoACT (Laurus Labs owns a 33.86% stake in the firm) recently got approval for India's first CAR-T cancer therapy (please read our recent detailed report on this [here](#)). Laurus Labs confirmed that ImmunoACT has the capacity to provide 500 therapies/year and is planning to expand this to 2,500 therapies/year in the next couple of years. At a cost price of Rs3-4m/therapy, this implies a maximum revenue potential of Rs1.5-2bn/year for ImmunoACT in the next two years. While these are still early days, a lot depends on the insurance coverage for the therapy as well as demand, given the high cost involved.

Retain REDUCE rating with a higher target price of Rs307

While we acknowledge Laurus Labs has multiple options, given the recent expansion of its FDF/API as well as CDMO capacities and its investments in new-age therapies like CAR-T and gene therapy, we feel the benefits may be back-ended and earnings are likely to languish in the interim. We cut FY24F/25F EPS by 25%/8%, respectively, and increase the target price to Rs307, or 25x FY25 EPS (higher multiple to build in the optionality from CAR-T therapy) from Rs294 earlier. Upside risk: Any sharp recovery in earnings growth.

Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	48,135	49,356	60,406	53,803	61,574
Operating EBITDA (Rsm)	15,507	14,224	15,922	10,601	14,565
Net Profit (Rsm)	9,836	8,275	7,901	3,741	6,673
Core EPS (Rs)	18.3	15.4	14.7	6.9	12.4
Core EPS Growth	285.3%	(15.9%)	(4.5%)	(52.6%)	78.4%
FD Core P/E (x)	21.96	26.10	27.34	57.73	32.37
DPS (Rs)	1.2	1.6	4.0	2.0	2.0
Dividend Yield	0.30%	0.40%	1.00%	0.50%	0.50%
EV/EBITDA (x)	14.75	16.33	14.75	22.48	16.53
P/FCFE (x)	41.23	23.53	22.08	17.99	22.69
Net Gearing	48.7%	49.3%	47.5%	53.7%	53.3%
P/BV (x)	8.32	6.45	5.35	5.15	4.51
ROE	45.0%	27.8%	21.4%	9.1%	14.9%
% Change In Core EPS Estimates				(24.65%)	(8.12%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: 2QFY24 results snapshot

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Revenue	15,759	15,448	13,809	11,818	12,245	-22%	4%
Consumption of raw materials	7,074	7,194	6,946	5,839	5,811	-18%	0%
as % of sales	44.9%	46.6%	50.3%	49.4%	47.5%		
Employee costs	1,470	1,474	1,343	1,599	1,639	12%	3%
as % of sales	9.3%	9.5%	9.7%	13.5%	13.4%		
R&D costs	490	550	580	470	580	18%	23%
as % of sales	3.1%	3.6%	4.2%	4.0%	4.7%		
Other expenditure	2236	2195	2085	2242	2336	4%	4%
as % of sales	14.2%	14.2%	15.1%	19.0%	19.1%		
EBITDA	4,489	4,036	2,855	1,667	1,879	-58%	13%
Margins (%)	28.5%	26.1%	20.7%	14.1%	15.3%		
Depreciation	818	844	870	906	934		
Other Income	11	14	17	36	18		
Interest	401	427	531	392	424		
PBT	3,281	2,779	1,471	406	539	-84%	33%
Total Tax	943	748	399	122	146		
Tax Rate (%)	28.7%	26.9%	27.1%	30.0%	27.0%		
PAT before MI	2,338	2,031	1,072	284	393	-83%	38%
Minority Interest (MI)	-10	0	-43	-36	-24		
Adj. PAT before extraordinary items	2,328	2,030	1,030	248	370	-84%	49%
Extraordinary expenses	0	0	0	0	0		
Reported PAT	2,328	2,030	1,030	248	370	-84%	49%
No. of shares	537.4	538.7	538.7	538.7	538.7		
EPS	4.3	3.8	1.9	0.5	0.7		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile of Laurus Labs

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Margins (%)							
Gross	55%	53%	50%	51%	53%	-5%	4%
EBITDA	28%	26%	21%	14%	15%	-46%	9%
Adj. PAT	15%	13%	7%	2%	3%	-80%	44%
Effective tax rate	29%	27%	27%	30%	27%	-6%	-10%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue contribution of Laurus Labs

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Antiretroviral API	4,017	3,729	3,499	4,060	3,711	-8%	-9%
% total revenue	25.5%	24.1%	25.3%	34.4%	30.3%		
Oncology API	545	758	1,285	537	1,195	119%	122%
% total revenue	3.5%	4.9%	9.3%	4.5%	9.8%		
Other API	2,238	1,833	2,356	1,373	1,384	-38%	1%
% total revenue	14.2%	11.9%	17.1%	11.6%	11.3%		
FDF	1,490	2,490	3,930	2,850	3,320	123%	16%
% total revenue	9.5%	16.1%	28.5%	24.1%	27.1%		
Synthesis	7,200	6,420	2,280	2,500	2,240	-69%	-10%
% total revenue	45.7%	41.6%	16.5%	21.2%	18.3%		
Bio-Ingredients / other	270	220	460	500	390	44%	-22%
% total revenue	1.7%	1.4%	3.3%	4.2%	3.2%		
Total Revenue	15,759	15,448	13,809	11,818	12,245	-22%	4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. Bloomberg and Incred estimates

(Rs m)	2QFY24A	Incred Estimates	Variation (%)	Bloomberg Estimates	Variation (%)
Revenue	12,245	13,555	-10%	13,544	-10%
EBITDA	1,879	2,796	-33%	2,666	-30%
EBITDA Margin (%)	15%	21%	529bp	20%	434bp
PAT	370	1,141	-68%	996	-63%

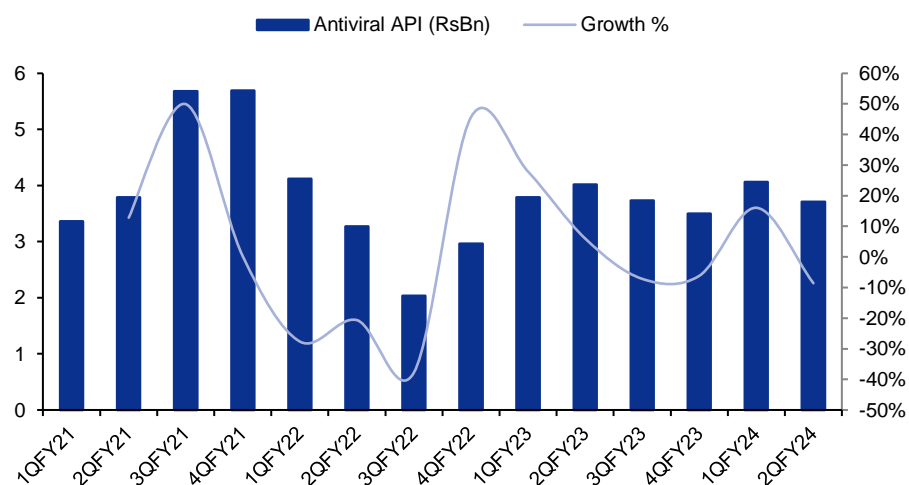
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 5: Our revised earnings estimates

	Old Estimates		New Estimates		Change(%)	
(Rs m)	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	55,852	63,198	53,803	61,574	-4%	-3%
EBITDA	12,121	15,884	10,601	14,565	-13%	-8%
EBITDA Margin (%)	22%	25%	20%	24%	-200bp	-148bp
PAT	4,965	7,263	3,741	6,673	-25%	-8%

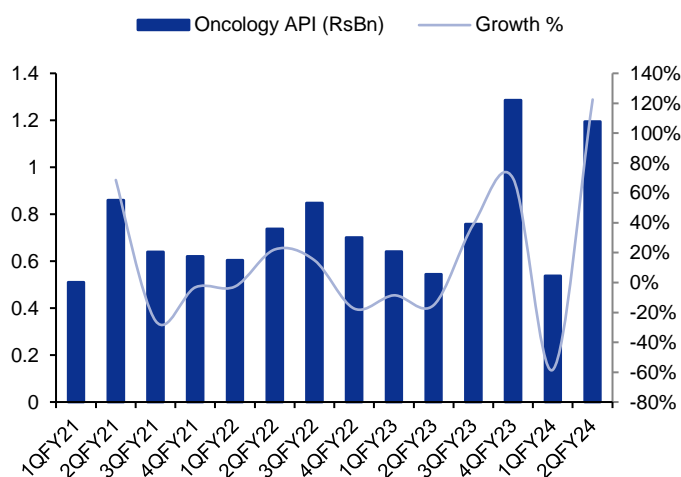
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: ARV business continues its steady momentum and witnesses a volume-led improvement



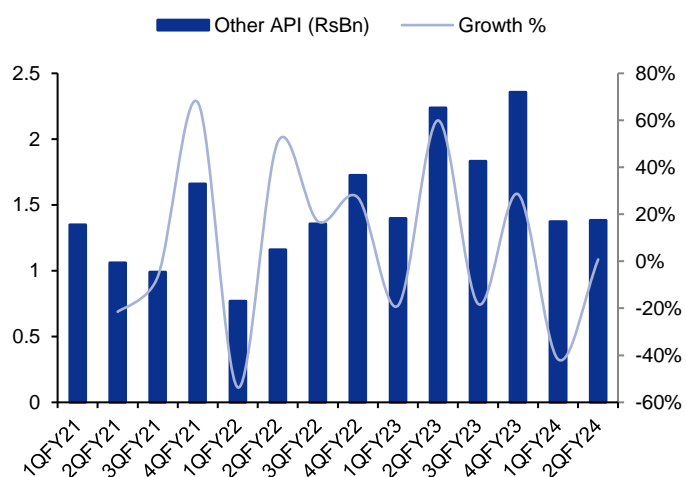
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Oncology API witnesses growth in 2QFY24



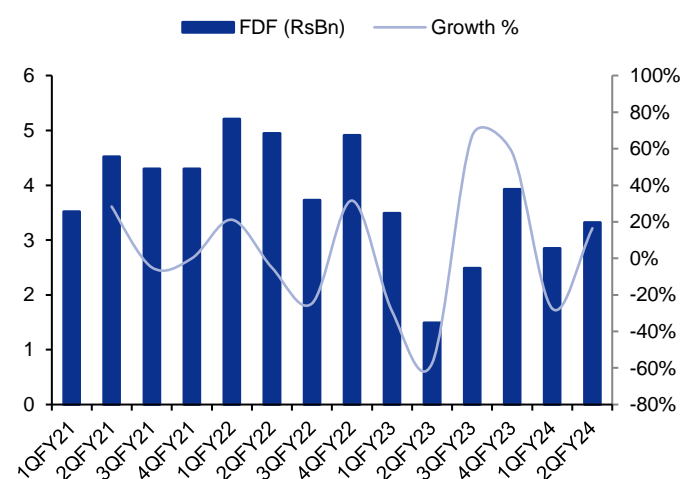
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Other API's growth remains steady in 2QFY24



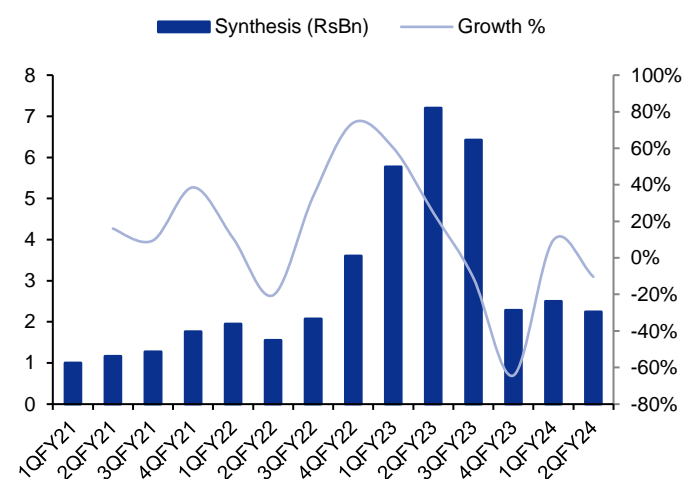
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: FDF saw a marginal improvement from 1QFY24



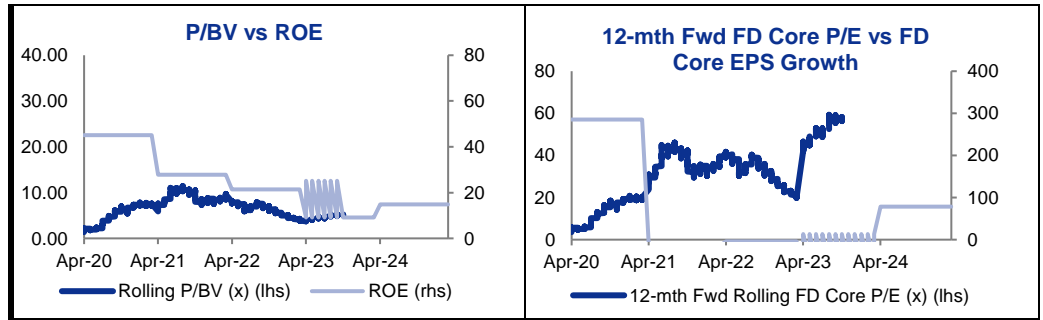
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: The synthesis segment declined significantly post Paxlovid supplies in 9MFY23 - this should continue in FY24F



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	48,135	49,356	60,406	53,803	61,574
Gross Profit	26,553	27,418	32,662	28,175	33,250
Operating EBITDA	15,507	14,224	15,922	10,601	14,565
Depreciation And Amortisation	(2,051)	(2,515)	(3,241)	(3,779)	(4,200)
Operating EBIT	13,456	11,709	12,681	6,821	10,365
Financial Income/(Expense)	(682)	(1,024)	(1,652)	(1,816)	(2,100)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	237	153	60	104	100
Profit Before Tax (pre-EI)	13,011	10,839	11,089	5,109	8,365
Exceptional Items					
Pre-tax Profit	13,011	10,839	11,089	5,109	8,365
Taxation	(3,173)	(2,515)	(3,123)	(1,309)	(2,091)
Exceptional Income - post-tax					
Profit After Tax	9,838	8,324	7,966	3,801	6,273
Minority Interests	(2)	(49)	(65)	(59)	400
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	9,836	8,275	7,901	3,741	6,673
Recurring Net Profit	9,836	8,275	7,901	3,741	6,673
Fully Diluted Recurring Net Profit	9,836	8,275	7,901	3,741	6,673

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	15,507	14,224	15,922	10,601	14,565
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,941)	(3,416)	(3,153)	2,270	(3,614)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(2,236)	(1,697)	(2,830)	(1,368)	(1,691)
Net Interest (Paid)/Received	(682)	(1,024)	(1,652)	(1,816)	(2,100)
Tax Paid	(1,791)	(826)	(1,239)	344	309
Cashflow From Operations	7,330	9,111	9,939	11,503	9,259
Capex	(6,839)	(8,767)	(9,875)	(11,000)	(9,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(2,583)	(276)	(223)		
Other Investing Cashflow					
Cash Flow From Investing	(2,092)	68	(159)	503	259
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	74	43	74		
Shares Repurchased					
Dividends Paid	(750)	(859)	(1,404)	(2,155)	(1,080)
Preferred Dividends					
Other Financing Cashflow	3,237	1,022	1,207	1,709	(830)
Cash Flow From Financing	2,561	207	(122)	(446)	(1,910)
Total Cash Generated	469	274	(281)	57	(1,651)
Free Cashflow To Equity	5,238	9,179	9,780	12,006	9,518
Free Cashflow To Firm	5,920	10,203	11,432	13,822	11,618

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	491	766	485	542	(1,109)
Total Debtors	13,061	13,542	15,804	15,065	17,241
Inventories	15,755	17,603	16,848	17,217	19,704
Total Other Current Assets	1,442	1,536	1,480	1,883	2,155
Total Current Assets	30,749	33,446	34,617	34,707	37,990
Fixed Assets	22,772	32,086	37,002	44,223	49,023
Total Investments	34	308	499	499	499
Intangible Assets	2,556	2,571	2,592	2,592	2,592
Total Other Non-Current Assets	1,396	1,269	1,894	1,894	1,894
Total Non-current Assets	26,758	36,234	41,987	49,208	54,008
Short-term Debt	8,861	11,357	12,106	12,106	12,106
Current Portion of Long-Term Debt					
Total Creditors	11,787	8,764	7,107	8,643	9,429
Other Current Liabilities	3,923	6,690	5,111	5,877	6,412
Total Current Liabilities	24,572	26,810	24,323	26,626	27,946
Total Long-term Debt	4,292	5,963	7,614	11,035	12,205
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,637	3,316	4,181	4,181	4,181
Total Non-current Liabilities	6,928	9,280	11,795	15,216	16,385
Total Provisions					
Total Liabilities	31,500	36,090	36,117	41,841	44,331
Shareholders Equity	25,976	33,512	40,375	41,903	47,897
Minority Interests	32	79	111	171	(230)
Total Equity	26,007	33,591	40,487	42,073	47,667

Key Ratios

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	70.0%	2.5%	22.4%	(10.9%)	14.4%
Operating EBITDA Growth	174.7%	(8.3%)	11.9%	(33.4%)	37.4%
Operating EBITDA Margin	32.2%	28.8%	26.4%	19.7%	23.7%
Net Cash Per Share (Rs)	(23.50)	(30.73)	(35.71)	(41.95)	(47.19)
BVPS (Rs)	48.22	62.21	74.95	77.79	88.91
Gross Interest Cover	19.74	11.44	7.68	3.76	4.94
Effective Tax Rate	24.4%	23.2%	28.2%	25.6%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	79.52	98.37	88.66	104.71	95.75
Inventory Days	209.77	277.50	226.63	242.58	237.89
Accounts Payables Days	151.73	170.96	104.40	112.15	116.44
ROIC (%)	24.4%	16.5%	15.0%	7.5%	10.1%
ROCE (%)	40.5%	26.0%	22.8%	10.9%	15.1%
Return On Average Assets	21.8%	14.3%	12.6%	6.4%	8.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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