

India

HOLD (no change)

Consensus ratings*: Buy 7 Hold 3 Sell 6

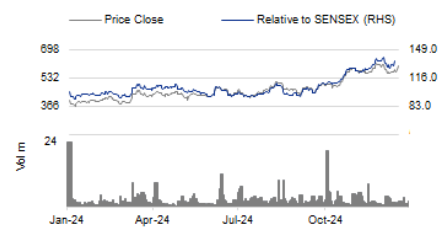
Current price: Rs603
 Target price: ▲ Rs640
 Previous target: Rs455
 Up/downside: 6.1%
 InCred Research / Consensus: 35.7%

Reuters:
 Bloomberg: LAURUS IN
 Market cap: US\$4,475m
 Rs324,924m
 Average daily turnover: US\$18.0m
 Rs1307.6m
 Current shares o/s: 538.7m
 Free float: 72.8%

*Source: Bloomberg

Key changes in this note

- Raise FY25F/26F PAT by 39%/26%.
- Raise our target price to Rs640 from Rs455 earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	6.3	34.7	50.3
Relative (%)	9.4	41.6	40.2

Major shareholders	% held
Promoters	27.2
Capital group	9.4
Amansa	4.1

Research Analyst(s)



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Laurus Labs

Stages a strong recovery

- Strong 3QFY25 performance, with EBITDA beat of ~25%+ against expectations. 4QFY25F results should be even better.
- For the last three quarters, the gross margin broadly sustained at around the 55% level. Revenue pick-up can thus drive a meaningful margin upside.
- Our FY25F/26F EPS are higher by 39%/26%, respectively. Maintain HOLD rating on the stock as we believe we are closer to the earnings reversal cycle.

Strong recovery in 3QFY25

We upgraded Laurus Labs' rating last quarter, anticipating a potential bottoming out of earnings, and its 3QFY25 results have confirmed this view. EBITDA outperformed our/ Bloomberg or BB consensus expectations by ~25%, highlighting the company's operating leverage. With revenue recovery underway, Laurus Labs is well-positioned to capitalize on its substantial investments over the past few years. 3Q saw robust growth in the CDMO business (+89% YoY), which is expected to accelerate further in 4QFY25F and in FY26F. Gross margin remained stable at 55–56% over recent quarters, while the lower EBITDA margin has been driven by sub-optimal asset utilization and negative operating leverage. The company has invested approximately Rs26bn from FY22–24 and plans an additional Rs18–20bn in FY25F–26F. Furthermore, Laurus Labs has allocated Rs4.7bn towards advanced technologies like gene therapy, cell therapy, and precision fermentation. While these initiatives have yet to contribute meaningfully, they currently weigh on margin. We expect a strong 4QFY25F performance, with the EBITDA margin rebounding to 25%+ and FY26F margin around 23-24% as the CDMO business ramps up, particularly with the animal health contract. This should drive 4QFY25F exit EBITDA margin of ~25%, a significant improvement from 14.5% in 1HFY25.

Higher revenue drives better operating leverage

The 3QFY25 revenue was hit by lower API sales (capacity constraints in the antiretroviral or ARV business), although FDF (+19% YoY) and CDMO businesses made up for the shortfall. Margin stood at 20.2%, led by strong operating leverage. Laurus Labs gave guidance of a 20% margin in FY25F, implying ~27-28% margin in 4QFY25F.

Retain HOLD rating on the stock with a higher target price of Rs640

Our FY25F/26F earnings estimates stand revised upwards by 39%/26%, respectively. We retain our HOLD rating on the stock with a higher target price of Rs640 (Rs455 earlier). While the valuation is expensive, we expect the stock to be a market performer, given that earnings recovery is imminent. Key downside risk is a slower-than-expected margin improvement, while a faster recovery could be an upside risk.

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	49,356	60,406	50,408	55,929	65,766
Operating EBITDA (Rsm)	14,224	15,922	7,775	11,193	15,581
Net Profit (Rsm)	8,275	7,901	1,623	3,643	6,619
Core EPS (Rs)	15.4	14.7	3.0	6.8	12.3
Core EPS Growth	(15.9%)	(4.5%)	(79.5%)	124.5%	81.7%
FD Core P/E (x)	39.23	41.09	200.07	89.11	49.04
DPS (Rs)	1.6	4.0	2.0	2.0	2.0
Dividend Yield	0.27%	0.66%	0.33%	0.33%	0.33%
EV/EBITDA (x)	23.97	21.57	44.64	31.02	22.34
P/FCFE (x)	35.37	33.19	49.54	23.66	27.08
Net Gearing	49.3%	47.5%	57.5%	54.4%	50.2%
P/BV (x)	9.69	8.04	7.90	7.42	6.57
ROE	27.8%	21.4%	4.0%	8.6%	14.2%
% Change In Core EPS Estimates				38.64%	26.22%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rsm)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	15,759	15,448	13,809	11,818	12,245	11,949	14,397	11,949	12,237	14,151	18%	16%
Consumption of raw materials	7,074	7,194	6,946	5,839	5,811	5,454	7,220	5,369	5,483	6,102	12%	11%
as % of sales	44.9%	46.6%	50.3%	49.4%	47.5%	45.6%	50.2%	44.9%	44.8%	43.1%		
Employee costs	1,470	1,474	1,343	1,599	1,639	1,550	1,611	1,740	1,787	1,891	22%	6%
as % of sales	9.3%	9.5%	9.7%	13.5%	13.4%	13.0%	11.2%	14.6%	14.6%	13.4%		
R&D costs	490	550	580	470	580	670	690	640	670	600	-10%	-10%
as % of sales	3.1%	3.6%	4.2%	4.0%	4.7%	5.6%	4.8%	5.4%	5.5%	4.2%		
Other expenditure	2236	2195	2085	2242	2336	2461	2461	2489	2514	2706	10%	8%
as % of sales	14.2%	14.2%	15.1%	19.0%	19.1%	20.6%	17.1%	20.8%	20.5%	19.1%		
EBITDA	4,489	4,036	2,855	1,667	1,879	1,814	2,415	1,712	1,783	2,852	57%	60%
Margins (%)	28.5%	26.1%	20.7%	14.1%	15.3%	15.2%	16.8%	14.3%	14.6%	20.2%		
Depreciation	818	844	870	906	934	984	1,023	1,061	1,075	1,061		
Other income	11	14	17	36	18	24	185	25	46	94		
Interest	401	427	531	392	424	508	505	492	526	578		
PBT	3,281	2,779	1,471	406	539	346	1,073	185	228	1,307	277%	473%
Total tax	943	748	399	122	146	95	320	63	51	401		
Tax rate (%)	28.7%	26.9%	27.1%	30.0%	27.0%	27.3%	29.8%	33.9%	22.3%	30.7%		
PAT before MI	2,338	2,031	1,072	284	393	252	753	122	177	906	260%	411%
Minority interest (MI)	-10	0	-43	-36	-24	-18	-3	5	22	23		
Adj. PAT before extraordinary items	2,328	2,030	1,030	248	370	233	750	127	200	929	298%	366%
Extraordinary expenses	0	0	0	0	0	0	0	0	0	0		
Reported PAT	2,328	2,030	1,030	248	370	233	750	127	200	929	298%	366%
No. of shares	537.4	538.7	538.7	538.7	538.7	540.0	540.0	538.7	538.7	539.3		
EPS	4.3	3.8	1.9	0.5	0.7	0.4	1.4	0.2	0.4	1.7		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(in %)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Margin (%)												
Gross	55%	53%	50%	51%	53%	54%	50%	55%	55%	57%	253	169
EBITDA	28%	26%	21%	14%	15%	15%	17%	14%	15%	20%	497	558
Adj. PAT	15%	13%	7%	2%	3%	2%	5%	1%	2%	7%	461	494
Effective tax rate	29%	27%	27%	30%	27%	27%	30%	34%	22%	31%	337	835

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue mix

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	Y-o-Y (%)	Q-o-Q (%)
Antiviral API	4,017	3,729	3,499	4,060	3,711	3,501	4,098	3,984	3,676	3,133	-11%	-15%
% total revenue	25.5%	24.1%	25.3%	34.4%	30.3%	29.3%	28.5%	33.3%	30.0%	22.1%		
Oncology API	545	758	1,285	537	1,195	861	1,490	1,195	501	425	-51%	-15%
% total revenue	3.5%	4.9%	9.3%	4.5%	9.8%	7.2%	10.3%	10.0%	4.1%	3.0%		
Other API	2,238	1,833	2,356	1,373	1,384	1,378	1,863	1,461	1,393	1,752	27%	26%
% total revenue	14.2%	11.9%	17.1%	11.6%	11.3%	11.5%	12.9%	12.2%	11.4%	12.4%		
FDF	1,490	2,490	3,930	2,850	3,320	3,670	4,300	2,740	3,280	4,360	19%	33%
% total revenue	9.5%	16.1%	28.5%	24.1%	27.1%	30.7%	29.9%	22.9%	26.8%	30.8%		
Synthesis	7,200	6,420	2,280	2,500	2,240	2,120	2,360	2,140	2,990	4,000	89%	34%
% total revenue	45.7%	41.6%	16.5%	21.2%	18.3%	17.7%	16.4%	17.9%	24.4%	28.3%		
Bio-ingredients /others	270	220	460	500	390	420	290	430	400	480	14%	20%
% total revenue	1.7%	1.4%	3.3%	4.2%	3.2%	3.5%	2.0%	3.6%	3.3%	3.4%		
Total revenue	15,759	15,448	13,809	11,818	12,245	11,950	14,400	11,949	12,237	14,151	18%	16%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	IncRed Estimates	Variance (%)	Bloomberg Estimates	Variance (%)
Revenue (Rs. m)	14,151	13,083	8.2	13,357	5.9
EBITDA (Rs. m)	2,852	2,262	26.1	2,319	23.0
Margin (%)	20.2	17.3		17.4	
PAT (Rs. m)	929	526	76.7	579	60.5

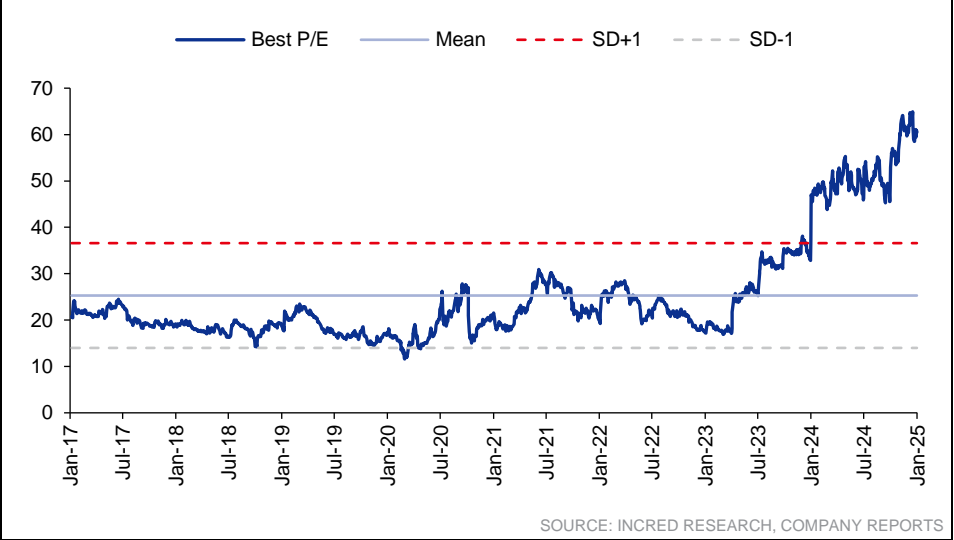
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

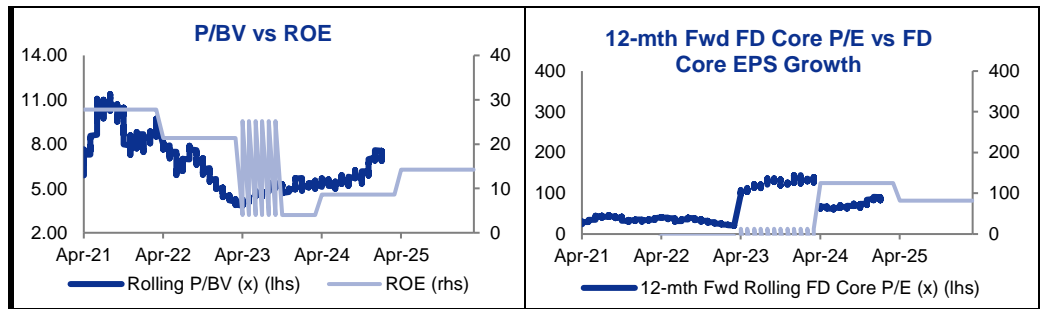
	FY25F			FY26F		
	Old	New	% change	Old	New	% change
Revenue (Rsm)	53,310	55,929	4.9	61,517	65,766	6.9
EBITDA (Rsm)	9,881	11,193	13.3	13,847	15,581	12.5
Margin (%)	18.5	20.0		22.5	23.7	
PAT (Rsm)	2,628	3,643	38.6	5,244	6,619	26.2
EPS (Rs)	4.8	6.7		9.6	12.1	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Laurus Labs trades at a significant high valuation which is way above the SD+1 mark



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	49,356	60,406	50,408	55,929	65,766
Gross Profit	27,418	32,662	26,084	31,488	37,487
Operating EBITDA	14,224	15,922	7,775	11,193	15,581
Depreciation And Amortisation	(2,515)	(3,241)	(3,846)	(4,300)	(4,800)
Operating EBIT	11,709	12,681	3,929	6,893	10,781
Financial Income/(Expense)	(1,024)	(1,652)	(1,829)	(2,180)	(2,100)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	153	60	263	250	250
Profit Before Tax (pre-EI)	10,839	11,089	2,364	4,963	8,931
Exceptional Items					
Pre-tax Profit	10,839	11,089	2,364	4,963	8,931
Taxation	(2,515)	(3,123)	(682)	(1,390)	(2,411)
Exceptional Income - post-tax					
Profit After Tax	8,324	7,966	1,682	3,573	6,519
Minority Interests	(49)	(65)	(59)	70	100
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	8,275	7,901	1,623	3,643	6,619
Recurring Net Profit	8,275	7,901	1,623	3,643	6,619
Fully Diluted Recurring Net Profit	8,275	7,901	1,623	3,643	6,619

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	14,224	15,922	7,775	11,193	15,581
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,416)	(3,153)	(290)	986	(3,276)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(1,697)	(2,830)	(828)	(1,320)	(2,311)
Net Interest (Paid)/Received	(1,024)	(1,652)	(1,829)	(2,180)	(2,100)
Tax Paid	(826)	(1,239)	738	610	(461)
Cashflow From Operations	9,111	9,939	6,657	10,859	9,994
Capex	(8,767)	(9,875)	(6,760)	(8,000)	(8,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(276)	(223)			
Other Investing Cashflow					
Cash Flow From Investing	68	(159)	(103)	2,859	1,994
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	43	74	26		
Shares Repurchased					
Dividends Paid	(859)	(1,404)	(862)	(1,080)	(1,083)
Preferred Dividends					
Other Financing Cashflow	1,022	1,207	1,871	(1,643)	(116)
Cash Flow From Financing	207	(122)	1,035	(2,723)	(1,199)
Total Cash Generated	274	(281)	932	136	795
Free Cashflow To Equity	9,179	9,780	6,554	13,719	11,988
Free Cashflow To Firm	10,203	11,432	8,383	15,899	14,088

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	766	485	1,417	1,552	2,348
Total Debtors	13,542	15,804	16,629	16,779	18,415
Inventories	17,603	16,848	18,454	19,575	21,045
Total Other Current Assets	1,536	1,480	1,850	1,957	2,302
Total Current Assets	33,446	34,617	38,350	39,863	44,109
Fixed Assets	32,086	37,002	40,475	44,175	47,375
Total Investments	308	499	1,240	1,240	1,240
Intangible Assets	2,571	2,592	2,653	2,653	2,653
Total Other Non-Current Assets	1,269	1,894	1,152	1,152	1,152
Total Non-current Assets	36,234	41,987	45,521	49,221	52,421
Short-term Debt	11,357	12,106	17,088	17,088	17,088
Current Portion of Long-Term Debt					
Total Creditors	8,764	7,107	10,512	10,467	9,865
Other Current Liabilities	6,690	5,111	3,522	5,931	6,708
Total Current Liabilities	26,810	24,323	31,123	33,487	33,662
Total Long-term Debt	5,963	7,614	7,982	8,269	10,003
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,316	4,181	3,610	3,610	3,610
Total Non-current Liabilities	9,280	11,795	11,592	11,878	13,612
Total Provisions					
Total Liabilities	36,090	36,117	42,715	45,365	47,274
Shareholders Equity	33,512	40,375	41,110	43,743	49,380
Minority Interests	79	111	46	(24)	(124)
Total Equity	33,591	40,487	41,156	43,719	49,256

Key Ratios

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	2.5%	22.4%	(16.6%)	11.0%	17.6%
Operating EBITDA Growth	(8.3%)	11.9%	(51.2%)	44.0%	39.2%
Operating EBITDA Margin	28.8%	26.4%	15.4%	20.0%	23.7%
Net Cash Per Share (Rs)	(30.73)	(35.71)	(43.91)	(44.19)	(45.93)
BVPS (Rs)	62.21	74.95	76.31	81.20	91.66
Gross Interest Cover	11.44	7.68	2.15	3.16	5.13
Effective Tax Rate	23.2%	28.2%	28.8%	28.0%	27.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	98.37	88.66	117.42	109.01	97.66
Inventory Days	277.50	226.63	264.87	283.96	262.14
Accounts Payables Days	170.96	104.40	132.19	156.66	131.21
ROIC (%)	16.5%	15.0%	4.4%	7.4%	10.6%
ROCE (%)	26.0%	22.8%	6.2%	10.2%	14.8%
Return On Average Assets	14.3%	12.6%	3.8%	6.0%	8.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework**Stock Ratings**

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.