

India

HOLD (no change)

Consensus ratings*: Buy 7 Hold 4 Sell 5

Current price: Rs838
 Target price: ▲ Rs850
 Previous target: Rs640
 Up/downside: 1.4%
 InCred Research / Consensus: 7.6%

Reuters:
 Bloomberg: LAURUS IN
 Market cap: US\$5,225m
 Rs452,024m
 Average daily turnover: US\$17.5m
 Rs1511.9m
 Current shares o/s: 539.3m
 Free float: 72.8%

*Source: Bloomberg

Key changes in this note

- FY26F/27F EPS revised upwards by ~9%/13%, respectively.
- Target price increased to Rs850 from Rs640 earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	19.4	33.7	86.6
Relative (%)	23.2	31.7	86.3

Major shareholders	% held
Promoters	27.2
Capital group	9.4
Amansa	4.1

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Laurus Labs

A strong start to FY26

- Demonstrates third consecutive quarter of recovery momentum and posts 1QFY26 results above estimates. Margin up 10ppt led by operating leverage.
- CS biz grows significantly for the fourth straight quarter. In CS, mix shifts towards big pharma companies. Gross margin to be in 55-60% range in FY26F.
- We revise upwards FY26F/27F EPS by ~9%/13%, respectively. Maintain HOLD rating as we believe the current valuation captures most of the positives.

Strong 1QFY26 performance; custom synthesis business outshines

Laurus Labs continued its recovery momentum for the third consecutive quarter and posted 1QFY26 results that were above our/Bloomberg consensus estimates. The company reported a strong 30% growth, with gross margin improving by 430bp QoQ/YoY (led by a better product mix and raw material price improvement) and the EBITDA margin improving by 10 percentage points YoY (at 24.3%) led by the gross margin impact and operating leverage. During 1Q, the custom synthesis (CS) business witnessed a fourth consecutive quarter of significant growth (130% YoY in 1Q) driven by several mid-to-late stage NCE deliveries and contributions from human and animal health segments. In CS, it is witnessing sustained demand in high-value integrated offerings, with the revenue mix shifting towards big and medium-size pharma companies. The formulations business grew by 50% YoY, supported by volume expansion in ARV and developed market sales, and execution of contracts entered last year. Laurus Labs remains confident about improved growth in FY26F and improvement in the gross margin (from 55% in FY25 to the 55-60% range) led by a rise in the share of CS business.

Capex cycle to continue in FY26F

Between FY22-25, the company invested ~Rs32bn into its business, including Rs4.7bn towards advanced technologies such as gene therapy, cell therapy, and precision fermentation. Although these initiatives have yet to make significant contribution, they currently exert pressure on the margin. Despite sub-optimal capacity utilization (asset turnover at 0.9x vs. 1.1x historically), Laurus Labs decided to sustain its capex cycle with an additional spending of Rs10bn in FY26F and Rs50bn over the next five years in Andhra Pradesh. We have reservations regarding the capital allocation policy, as we believe this will keep the debt level high (~2x net debt to EBITDA) and a more prudent strategy could enhance the overall profitability and return ratios.

Retain HOLD rating with a higher target price of Rs850

Our FY26F/27F EPS stand revised upwards by 9%/13%, respectively. While the earnings recovery is significant, the current valuation at 30x/24x FY26F/27F EV/EBITDA and 68x/46x FY26F/27F P/E, respectively, captures most of the positives. We maintain our HOLD rating on the stock with a target price of Rs850 (Rs640 earlier). Key downside risk is a slower-than-expected margin improvement, while a faster recovery is an upside risk.

Financial Summary	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue (Rsm)	60,406	50,408	55,537	65,231	75,228
Operating EBITDA (Rsm)	15,922	7,775	10,550	15,969	20,185
Net Profit (Rsm)	7,901	1,623	3,580	6,647	9,702
Core EPS (Rs)	14.7	3.0	6.6	12.3	18.0
Core EPS Growth	(4.5%)	(79.5%)	120.6%	85.7%	46.0%
FD Core P/E (x)	57.18	278.40	126.17	67.96	46.56
DPS (Rs)	4.0	2.0	0.8	0.8	2.0
Dividend Yield	0.48%	0.24%	0.10%	0.10%	0.24%
EV/EBITDA (x)	29.56	60.99	45.14	29.96	23.52
P/FCFE (x)	46.19	68.93	68.22	42.96	23.83
Net Gearing	47.5%	57.5%	55.4%	53.3%	39.4%
P/BV (x)	11.19	10.99	10.10	8.85	7.47
ROE	21.4%	4.0%	8.3%	13.9%	17.4%
% Change In Core EPS Estimates				8.64%	13.10%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rsm)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	Y-o-Y (%)	Q-o-Q (%)
Revenue	11,818	12,245	11,949	14,397	11,949	12,237	14,151	17,203	15,696	31%	-9%
Consumption of raw materials	5,839	5,811	5,454	7,220	5,369	5,483	6,102	7,827	6,374	19%	-19%
as % of sales	49.4%	47.5%	45.6%	50.2%	44.9%	44.8%	43.1%	45.5%	40.6%		
Employee costs	1,599	1,639	1,550	1,611	1,740	1,787	1,891	1,777	2,148	23%	21%
as % of sales	13.5%	13.4%	13.0%	11.2%	14.6%	14.6%	13.4%	10.3%	13.7%		
R&D costs	470	580	670	690	640	670	600	660	680	6%	3%
as % of sales	4.0%	4.7%	5.6%	4.8%	5.4%	5.5%	4.2%	3.8%	4.3%		
Other expenditure	2242	2336	2461	2461	2489	2514	2706	2733	2673	7%	-2%
as % of sales	19.0%	19.1%	20.6%	17.1%	20.8%	20.5%	19.1%	15.9%	17.0%		
EBITDA	1,667	1,879	1,814	2,415	1,712	1,783	2,852	4,206	3,821	123%	-9%
Margins (%)	14.1%	15.3%	15.2%	16.8%	14.3%	14.6%	20.2%	24.4%	24.3%		
Depreciation	906	934	984	1,023	1,061	1,075	1,061	1,104	1,168		
Other Income	36	18	24	185	25	46	94	586	104		
Interest	392	424	508	505	492	526	578	564	515		
PBT	406	539	346	1,073	185	228	1,307	3,123	2,242	1115%	-28%
Total tax	122	146	95	320	63	51	401	785	631		
Tax rate (%)	30.0%	27.0%	27.3%	29.8%	33.9%	22.3%	30.7%	25.1%	28.2%		
PAT before MI	284	393	252	753	122	177	906	2,339	1,611	1219%	-31%
Minority interest (MI)	-36	-24	-18	-3	5	22	23	-11	6		
Adj. PAT before extraordinary items	248	370	233	750	127	200	929	2,328	1,617	1175%	-31%
Extraordinary expenses	0	0	0	0	0	0	0	0	0		
Reported PAT	248	370	233	750	127	200	929	2,328	1,617	1175%	-31%
No. of shares	538.7	538.7	540.0	540.0	538.7	538.7	539.3	539.3	539.3		
EPS	0.5	0.7	0.4	1.4	0.2	0.4	1.7	4.3	3.0		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(in %)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)											
Gross	51%	53%	54%	50%	55%	55%	57%	55%	59%	432	489
EBITDA	14%	15%	15%	17%	14%	15%	20%	24%	24%	1002	-10
Adj. PAT	2%	3%	2%	5%	1%	2%	7%	14%	10%	924	-323
Effective tax rate	30%	27%	27%	30%	34%	22%	31%	25%	28%	-570	304

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue mix

(Rs m)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	Y-o-Y (%)	Q-o-Q (%)
API	5,970	6,290	5,740	7,450	6,640	5,570	5,310	6,860	6,370	-4%	-7%
% total revenue	50.5%	51.4%	48.0%	51.7%	55.6%	45.5%	37.5%	39.9%	40.6%		
FDF	2,850	3,320	3,670	4,300	2,740	3,280	4,360	5,440	4,110	50%	-24%
% total revenue	24.1%	27.1%	30.7%	29.9%	22.9%	26.8%	30.8%	31.6%	26.2%		
Synthesis	2,500	2,240	2,120	2,360	2,140	2,990	4,000	4,610	4,930	130%	7%
% total revenue	21.2%	18.3%	17.7%	16.4%	17.9%	24.4%	28.3%	26.8%	31.4%		
Bio-ingredients / others	500	390	420	290	430	400	480	290	290	-33%	0%
% total revenue	4.2%	3.2%	3.5%	2.0%	3.6%	3.3%	3.4%	1.7%	1.8%		
Total revenue	11,818	12,245	11,950	14,400	11,949	12,237	14,151	17,200	15,700	31%	-9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

(Rs m)	Actuals	Incrid Estimates	Variance (%)	Bloomberg Estimates	Variance (%)
Revenue	15,696	15,173	3.4	14,657	7.1
EBITDA	3,821	3,407	12.2	2,969	28.7
Margin (%)	24.3	22.5		20.3	
PAT	1,617	1,325	22.1	1,247	29.7

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

	FY26F			FY27F		
	Old	New	% change	Old	New	% change
Revenue (Rsm)	64,935	65,231	0.5	74,397	75,228	1.1
EBITDA (Rsm)	15,045	15,969	6.1	18,546	20,185	8.8
Margins (%)	23.2	24.5		24.9	26.8	
PAT (Rsm)	6,119	6,647	8.6	8,579	9,702	13.1
EPS (Rs)	11.3	12.3		15.9	18.0	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: On P/E and EV/EBITDA basis, Laurus Labs trades at a significant high valuation which is way above the SD+1 level

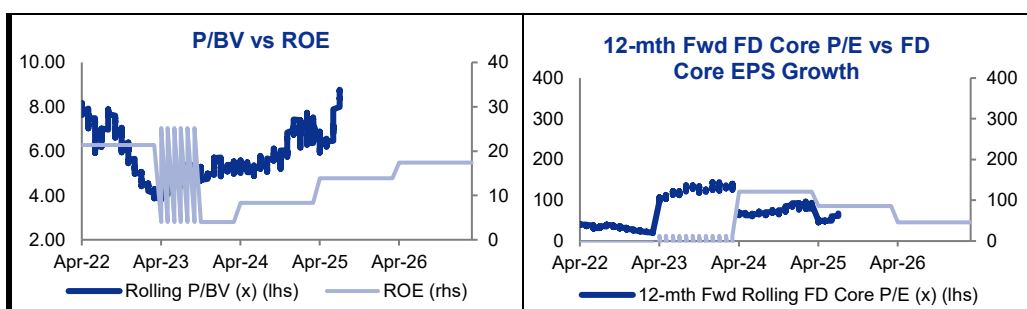


SOURCE: INCRED RESEARCH, COMPANY REPORTS



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Net Revenues	60,406	50,408	55,537	65,231	75,228
Gross Profit	32,662	26,084	30,757	37,508	44,009
Operating EBITDA	15,922	7,775	10,550	15,969	20,185
Depreciation And Amortisation	(3,241)	(3,846)	(4,301)	(4,800)	(5,200)
Operating EBIT	12,681	3,929	6,249	11,169	14,985
Financial Income/(Expense)	(1,652)	(1,829)	(2,160)	(2,550)	(2,200)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	60	263	751	350	300
Profit Before Tax (pre-EI)	11,089	2,364	4,840	8,969	13,085
Exceptional Items					
Pre-tax Profit	11,089	2,364	4,840	8,969	13,085
Taxation	(3,123)	(682)	(1,299)	(2,422)	(3,533)
Exceptional Income - post-tax					
Profit After Tax	7,966	1,682	3,541	6,547	9,552
Minority Interests	(65)	(59)	39	100	150
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	7,901	1,623	3,580	6,647	9,702
Recurring Net Profit	7,901	1,623	3,580	6,647	9,702
Fully Diluted Recurring Net Profit	7,901	1,623	3,580	6,647	9,702

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
EBITDA	15,922	7,775	10,550	15,969	20,185
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,153)	(290)	(3,746)	(3,389)	(3,825)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(2,830)	(828)	(787)	(2,322)	(3,383)
Net Interest (Paid)/Received	(1,652)	(1,829)	(2,160)	(2,550)	(2,200)
Tax Paid	(1,239)	738	619	(122)	(1,483)
Cashflow From Operations	9,939	6,657	6,017	10,258	12,977
Capex	(9,875)	(6,760)	(5,411)	(10,000)	(7,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(223)				
Other Investing Cashflow					
Cash Flow From Investing	(159)	(103)	605	258	5,977
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	74	26	102		
Shares Repurchased					
Dividends Paid	(1,404)	(862)	(431)	(431)	(431)
Preferred Dividends					
Other Financing Cashflow	1,207	1,871	(250)	(398)	(2,952)
Cash Flow From Financing	(122)	1,035	(580)	(830)	(3,384)
Total Cash Generated	(281)	932	26	(571)	2,593
Free Cashflow To Equity	9,780	6,554	6,622	10,517	18,954
Free Cashflow To Firm	11,432	8,383	8,782	13,067	21,154

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Total Cash And Equivalents	485	1,417	1,442	871	3,464
Total Debtors	15,804	16,629	20,072	22,179	24,073
Inventories	16,848	18,454	19,365	22,179	24,825
Total Other Current Assets	1,480	1,850	2,444	2,283	2,633
Total Current Assets	34,617	38,350	43,323	47,511	54,996
Fixed Assets	37,002	40,475	43,160	48,360	50,160
Total Investments	499	1,240	2,333	2,333	2,333
Intangible Assets	2,592	2,653	2,656	2,656	2,656
Total Other Non-Current Assets	1,894	1,152	1,884	1,884	1,884
Total Non-current Assets	41,987	45,521	50,033	55,233	57,033
Short-term Debt	12,106	17,088	20,475	20,475	20,475
Current Portion of Long-Term Debt					
Total Creditors	7,107	10,512	9,585	9,698	9,981
Other Current Liabilities	5,111	3,522	5,337	6,595	7,377
Total Current Liabilities	24,323	31,123	35,397	36,768	37,833
Total Long-term Debt	7,614	7,982	6,456	8,258	7,205
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	4,181	3,610	5,478	5,478	5,478
Total Non-current Liabilities	11,795	11,592	11,933	13,735	12,683
Total Provisions					
Total Liabilities	36,117	42,715	47,331	50,503	50,516
Shareholders Equity	40,375	41,110	44,726	51,042	60,463
Minority Interests	111	46	1,300	1,200	1,050
Total Equity	40,487	41,156	46,025	52,241	61,512

Key Ratios

	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue Growth	22.4%	(16.6%)	10.2%	17.5%	15.3%
Operating EBITDA Growth	11.9%	(51.2%)	35.7%	51.4%	26.4%
Operating EBITDA Margin	26.4%	15.4%	19.0%	24.5%	26.8%
Net Cash Per Share (Rs)	(35.67)	(43.86)	(47.27)	(51.67)	(44.91)
BVPS (Rs)	74.87	76.23	82.94	94.65	112.12
Gross Interest Cover	7.68	2.15	2.89	4.38	6.81
Effective Tax Rate	28.2%	28.8%	26.8%	27.0%	27.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	88.66	117.42	120.60	118.20	112.20
Inventory Days	226.63	264.87	278.54	273.48	274.77
Accounts Payables Days	104.40	132.19	148.01	126.94	115.04
ROIC (%)	15.0%	4.4%	6.3%	10.0%	12.6%
ROCE (%)	22.8%	6.2%	9.0%	14.5%	17.6%
Return On Average Assets	12.6%	3.8%	5.8%	8.6%	10.4%

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.