

India

REDUCE (no change)

Consensus ratings*: Buy 9 Hold 2 Sell 4

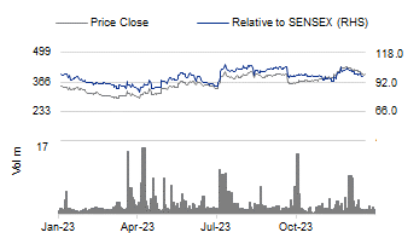
Current price: Rs401
 Target price:  Rs307
 Previous target: Rs307
 Up/downside: -23.4%
 InCred Research / Consensus: -24.2%

Reuters:
 Bloomberg: LAURUS IN
 Market cap: US\$2,599m
 Rs216,071m
 Average daily turnover: US\$9.9m
 Rs822.4m
 Current shares o/s: 538.7m
 Free float: 72.8%

*Source: Bloomberg

Key changes in this note

► FY24F/25F EPS cut by 47%/36%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(3.3)	10.6	15.8
Relative (%)	(3.2)	(0.3)	(1.9)

Major shareholders	% held
Promoters	27.2
Capital group	9.4
Amanza	4.1

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Laurus Labs**Another quarter, another miss**

- 3Q largely replicated 2Q, missing our EBITDA estimate by 17% & showing no recovery in margins, despite the positive commentary by management earlier.
- Ramp-up in the animal health CDMO contract can be slower than earlier expectations, further pushing any meaningful margin recovery beyond FY25F.
- We cut FY24F/25F EPS estimates by 47%/36% but retain our target price of Rs307, as we roll forward to FY26F EPS. Retain REDUCE rating on the stock.

Missing our estimates yet again

3QFY24 sales of Laurus Labs were broadly in line with expectations, although EBITDA was 17% below our estimate. Excluding Paxlovid, the base business grew by 6% YoY. Weakness in the API and CDMO business was more than offset by strong growth in the formulations and the bio-ingredients business. On the positive side, gross margin expanded by 190bp QoQ and most of the EBITDA miss was driven by negative operating leverage (underutilized facilities/upfront costs on new capex and new initiatives). Laurus Labs alluded that antiretroviral or ARV prices are stable QoQ and the formulations business should continue to do well in the medium term. The API business was impacted due to the transitionary shipment impact (may happen in 4QFY24F too) as well as from subdued pricing of other APIs.

Margin expansion can be slower than expected

Laurus Labs' management clarified that its animal health contract spans across 20 APIs, which will be first validated (to be completed by early 2026F; Laurus Labs is currently validating the third product) and then filed/approved – this implies that the ramp-up is likely to be gradual and peak potential will be realized only in FY26F and beyond against our/street earlier expectations of a faster ramp-up. This is likely to push back any sizeable margin expansion beyond FY25F, in our view.

Other highlights

Capex update – commercial activities started in the first block of animal health capex in Oct 2023 and further expansion is ongoing. Crop sciences (LSPL-U4) capex will be in line from late FY25F and the R&D centre for CDMO business will be in line from late FY24F. The company expects a gross block of Rs60bn by FY24F.

Retain REDUCE rating

While we acknowledge that Laurus Labs has multiple business optionality, 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 our FY24F/25F EPS estimates by 47%/36%, respectively, but retain the target price of Rs307 due to rollover to 25x FY26F EPS. Upside risk: Any sharp recovery in earnings growth.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	49,356	60,406	50,336	56,830	64,174
Operating EBITDA (Rsm)	14,224	15,922	8,420	11,778	15,054
Net Profit (Rsm)	8,275	7,901	1,996	4,326	6,626
Core EPS (Rs)	15.4	14.7	3.7	8.0	12.3
Core EPS Growth	(15.9%)	(4.5%)	(74.7%)	116.8%	53.1%
FD Core P/E (x)	26.10	27.33	108.20	49.92	32.60
DPS (Rs)	1.6	4.0	2.0	2.0	2.0
Dividend Yield	0.40%	1.00%	0.50%	0.50%	0.50%
EV/EBITDA (x)	16.33	14.75	28.19	20.41	15.98
P/FCFE (x)	23.53	22.08	18.36	29.16	16.02
Net Gearing	49.3%	47.5%	53.9%	57.6%	52.8%
P/BV (x)	6.44	5.35	5.38	4.93	4.33
ROE	27.8%	21.4%	5.0%	10.3%	14.1%
% Change In Core EPS Estimates			(46.65%)	(35.17%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Another quarter, another miss

Figure 1: Financial summary

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	15,759	15,448	13,809	11,818	12,245	11,949	-23%	-2%
Consumption of RM	7,074	7,194	6,946	5,839	5,811	5,454	-24%	-6%
as % of sales	44.9%	46.6%	50.3%	49.4%	47.5%	45.6%		
Employee costs	1,470	1,474	1,343	1,599	1,639	1,550	5%	-5%
as % of sales	9.3%	9.5%	9.7%	13.5%	13.4%	13.0%		
R&D costs	490	550	580	470	580	670	22%	16%
as % of sales	3.1%	3.6%	4.2%	4.0%	4.7%	5.6%		
Other expenditure	2236	2195	2085	2242	2336	2461	12%	5%
as % of sales	14.2%	14.2%	15.1%	19.0%	19.1%	20.6%		
EBITDA	4,489	4,036	2,855	1,667	1,879	1,814	-55%	-3%
Margins (%)	28.5%	26.1%	20.7%	14.1%	15.3%	15.2%		
Depreciation	818	844	870	906	934	984		
Other Income	11	14	17	36	18	24		
Interest	401	427	531	392	424	508		
PBT	3,281	2,779	1,471	406	539	346	-88%	-36%
Total Tax	943	748	399	122	146	95		
Tax Rate (%)	28.7%	26.9%	27.1%	30.0%	27.0%	27.3%		
PAT before MI	2,338	2,031	1,072	284	393	252	-88%	-36%
Minority interest (MI)	-10	0	-43	-36	-24	-18		
Adj. PAT before extraordinary items	2,328	2,030	1,030	248	370	233	-89%	-37%
Extraordinary expenses	0	0	0	0	0	0		
Reported PAT	2,328	2,030	1,030	248	370	233	-89%	-37%
No. of shares	537.4	538.7	538.7	538.7	538.7	540.0		
EPS	4.3	3.8	1.9	0.5	0.7	0.4		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin break-up

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
Margins (%)								
Gross	55%	53%	50%	51%	53%	54%	2%	3%
EBITDA	28%	26%	21%	14%	15%	15%	-42%	-1%
Adj. PAT	15%	13%	7%	2%	3%	2%	-85%	-35%
Effective tax rate	29%	27%	27%	30%	27%	27%	1%	1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue break-up

(Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	Y-o-Y (%)	Q-o-Q (%)
Antiviral API	4,017	3,729	3,499	4,060	3,711	3,501	-6%	-6%
% total revenue	25.5%	24.1%	25.3%	34.4%	30.3%	29.3%		
Oncology API	545	758	1,285	537	1,195	861	14%	-28%
% total revenue	3.5%	4.9%	9.3%	4.5%	9.8%	7.2%		
Other API	2,238	1,833	2,356	1,373	1,384	1,378	-25%	0%
% total revenue	14.2%	11.9%	17.1%	11.6%	11.3%	11.5%		
FDF	1,490	2,490	3,930	2,850	3,320	3,670	47%	11%
% total revenue	9.5%	16.1%	28.5%	24.1%	27.1%	30.7%		
Synthesis	7,200	6,420	2,280	2,500	2,240	2,120	-67%	-5%
% total revenue	45.7%	41.6%	16.5%	21.2%	18.3%	17.7%		
Bio-Ingredients / other	270	220	460	500	390	420	91%	8%
% total revenue	1.7%	1.4%	3.3%	4.2%	3.2%	3.5%		
Total Revenue	15,759	15,448	13,809	11,818	12,245	11,950	-23%	-2%

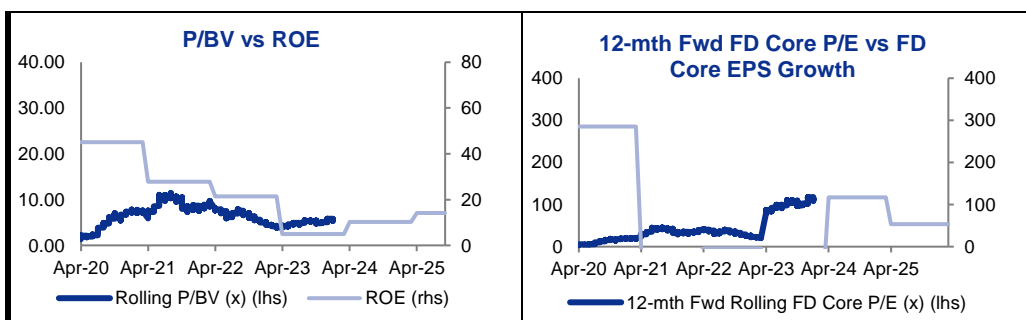
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Change in our earnings estimates

Change in earnings estimates	FY24F			FY25F		
	Old	New	% change	Old	New	% change
Revenue	53,803	50,336	(6.4)	61,574	56,830	(7.7)
EBITDA	10,601	8,420	(20.6)	14,565	11,778	(19.1)
Margins	19.7	16.7		23.7	20.7	
PAT	3,741	1,996	(46.6)	6,673	4,326	(35.2)
EPS	6.9	3.7		12.4	8.0	

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	49,356	60,406	50,336	56,830	64,174
Gross Profit	27,418	32,662	26,714	30,973	35,617
Operating EBITDA	14,224	15,922	8,420	11,778	15,054
Depreciation And Amortisation	(2,515)	(3,241)	(3,813)	(4,400)	(4,800)
Operating EBIT	11,709	12,681	4,607	7,378	10,254
Financial Income/(Expense)	(1,024)	(1,652)	(1,824)	(2,100)	(2,100)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	153	60	103	100	100
Profit Before Tax (pre-EI)	10,839	11,089	2,886	5,378	8,254
Exceptional Items					
Pre-tax Profit	10,839	11,089	2,886	5,378	8,254
Taxation	(2,515)	(3,123)	(793)	(1,452)	(2,229)
Exceptional Income - post-tax					
Profit After Tax	8,324	7,966	2,093	3,926	6,026
Minority Interests	(49)	(65)	(98)	400	600
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	8,275	7,901	1,996	4,326	6,626
Recurring Net Profit	8,275	7,901	1,996	4,326	6,626
Fully Diluted Recurring Net Profit	8,275	7,901	1,996	4,326	6,626

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	14,224	15,922	8,420	11,778	15,054
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,416)	(3,153)	2,851	(3,023)	(2,186)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(1,697)	(2,830)	(890)	(1,052)	(1,629)
Net Interest (Paid)/Received	(1,024)	(1,652)	(1,824)	(2,100)	(2,100)
Tax Paid	(826)	(1,239)	831	948	371
Cashflow From Operations	9,111	9,939	10,381	7,703	11,239
Capex	(8,767)	(9,875)	(9,000)	(8,000)	(9,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(276)	(223)			
Other Investing Cashflow					
Cash Flow From Investing	68	(159)	1,381	(297)	2,239
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	43	74			
Shares Repurchased					
Dividends Paid	(859)	(1,404)	(2,155)	(1,080)	(1,083)
Preferred Dividends					
Other Financing Cashflow	1,022	1,207	740	1,093	(259)
Cash Flow From Financing	207	(122)	(1,415)	13	(1,341)
Total Cash Generated	274	(281)	(34)	(284)	898
Free Cashflow To Equity	9,179	9,780	11,762	7,406	13,478
Free Cashflow To Firm	10,203	11,432	13,586	9,506	15,578

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	766	485	451	167	1,065
Total Debtors	13,542	15,804	15,101	17,049	17,969
Inventories	17,603	16,848	17,618	19,891	20,536
Total Other Current Assets	1,536	1,480	1,913	1,989	2,246
Total Current Assets	33,446	34,617	35,082	39,095	41,815
Fixed Assets	32,086	37,002	42,188	45,788	49,988
Total Investments	308	499	499	499	499
Intangible Assets	2,571	2,592	2,592	2,592	2,592
Total Other Non-Current Assets	1,269	1,894	1,894	1,894	1,894
Total Non-current Assets	36,234	41,987	47,174	50,774	54,974
Short-term Debt	11,357	12,106	12,106	12,106	12,106
Current Portion of Long-Term Debt					
Total Creditors	8,764	7,107	9,936	10,750	9,808
Other Current Liabilities	6,690	5,111	5,631	6,092	6,669
Total Current Liabilities	26,810	24,323	27,673	28,947	28,582
Total Long-term Debt	5,963	7,614	10,075	13,168	14,909
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,316	4,181	4,181	4,181	4,181
Total Non-current Liabilities	9,280	11,795	14,255	17,348	19,090
Total Provisions					
Total Liabilities	36,090	36,117	41,928	46,295	47,672
Shareholders Equity	33,512	40,375	40,119	43,766	49,909
Minority Interests	79	111	209	(191)	(791)
Total Equity	33,591	40,487	40,328	43,574	49,117

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	2.5%	22.4%	(16.7%)	12.9%	12.9%
Operating EBITDA Growth	(8.3%)	11.9%	(47.1%)	39.9%	27.8%
Operating EBITDA Margin	28.8%	26.4%	16.7%	20.7%	23.5%
Net Cash Per Share (Rs)	(30.73)	(35.71)	(40.34)	(46.61)	(48.17)
BVPS (Rs)	62.21	74.95	74.47	81.24	92.65
Gross Interest Cover	11.44	7.68	2.53	3.51	4.88
Effective Tax Rate	23.2%	28.2%	27.5%	27.0%	27.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	98.37	88.66	112.05	103.24	99.58
Inventory Days	277.50	226.63	266.28	264.73	258.35
Accounts Payables Days	170.96	104.40	131.67	146.00	131.37
ROIC (%)	16.5%	15.0%	5.2%	7.6%	9.7%
ROCE (%)	26.0%	22.8%	7.5%	11.2%	14.1%
Return On Average Assets	14.3%	12.6%	4.4%	6.4%	8.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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