

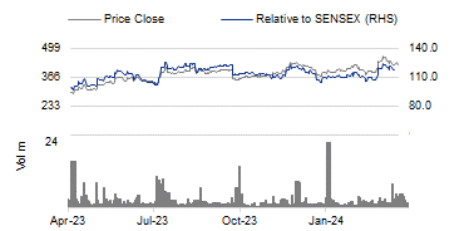
India

**REDUCE** (no change)

Consensus ratings*:	Buy 9	Hold 2	Sell 6
Current price:	Rs426		
Target price:	Rs307		
Previous target:	Rs307		
Up/downside:	-27.9%		
InCred Research / Consensus:	-21.0%		
Reuters:	LAURUS IN		
Bloomberg:	US\$2,755m		
Market cap:	Rs229,546m		
Average daily turnover:	US\$12.2m		
	Rs1017.9m		
Current shares o/s:	538.7m		
Free float:	72.8%		
*Source: Bloomberg			

**Key changes in this note**

- FY25F/26F EPS cut by 11.7% / 5.5%, respectively.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	7.1	12.4	42.0
Relative (%)	4.4	6.9	15.2

<b>Major shareholders</b>	% held
Promoters	27.2
Capital group	9.4
Amansa	4.1

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# Laurus Labs

## Meaningful recovery is still far away

- 4QFY24 saw some recovery in earnings, but they fell short of expectations. Margins recovered to 16.8% (+160bp QoQ) against the estimated 18-20%.
- Management commentary on key projects suggests a slower-than-expected recovery, with a meaningful pick-up likely only in FY26F.
- Our FY25F/26F EPS stand reset by -12%/ -5%, respectively. Retain REDUCE rating on the stock with an unchanged target price of Rs307.

### Yet another miss on the earnings front

Laurus Labs missed expectations in 4QFY24, displaying yet another quarter of margin miss, due to product mix problems. The EBITDA margin at 16.8% fell well below our as well as consensus estimates, primarily due to gross margin challenges (-450bp QoQ). Revenue growth stood at 4% YoY, driven by strong performance in formulations and CDMO businesses, which was offset by cyclical in bio ingredients and underperformance in certain API segments. Notably, anti-retroviral or ARV API demonstrated robust growth (+17% YoY), with oncology products also contributing positively.

### Meaningful revenue pick-up in CDMO business likely only in FY26F

Laurus Labs' management noted project delays: the animal health project is set back by six months due to complex chemistries and qualifications in case of the API manufacturing block. Initial supplies are expected in FY25F, with peak revenue anticipated by FY27F. The crop protection unit should qualify by FY25F and start contributing from FY26F, but alongside vector/gene products are also expected to contribute from FY26F.

### The investment spree continues

Laurus Labs, along with its joint venture partner KRKA, will invest EUR50m over three years in a new FDF facility in Hyderabad. Another US\$40m fermentation-focused capex is planned in FY25F at Vizag. The company invested around Rs26bn over FY22-24 and will invest another Rs7-8bn in FY25F. Around 40% of this capex is yet to meaningfully scale up and will continue impacting near-term margins. Further, the company has invested around Rs4.7bn across technologies (gene therapy/cell therapy/precision fermentation, etc.). These initiatives are yet to contribute meaningfully and will remain a near-term drag.

### Other highlights

- a) Currently, two APIs are in validation stage and customers may file for NDA soon.
- b) the company doesn't expect API prices to be hit further.
- c) Tax rate of 27-28% likely in FY25F.

### Retain REDUCE rating

While we acknowledge that Laurus Labs has multiple business optionality (capacity expansion + 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 FY25F/26F EPS estimates by 12%/5%, respectively. Retain REDUCE rating on the stock with a target price of Rs307. Upside risk: Any sharp recovery in earnings growth.

Financial Summary	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	49,356	60,406	50,408	57,189	64,461
Operating EBITDA (Rsm)	14,224	15,922	7,775	11,084	14,551
Net Profit (Rsm)	8,275	7,901	1,623	3,819	6,258
Core EPS (Rs)	15.4	14.7	3.0	7.1	11.6
Core EPS Growth	(15.9%)	(4.5%)	(79.5%)	135.4%	63.9%
FD Core P/E (x)	27.73	29.04	141.39	60.07	36.66
DPS (Rs)	1.6	4.0	2.0	2.0	2.0
Dividend Yield	0.38%	0.94%	0.47%	0.47%	0.47%
EV/EBITDA (x)	17.28	15.59	32.40	22.68	17.25
P/FCFE (x)	25.00	23.46	35.01	15.89	16.93
Net Gearing	49.3%	47.5%	57.5%	53.6%	48.5%
P/BV (x)	6.85	5.68	5.58	5.19	4.59
ROE	27.8%	21.4%	4.0%	8.9%	13.3%
% Change In Core EPS Estimates				(11.72%)	(5.55%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Meaningful recovery is still far away

**Figure 1: Financial summary**

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (%)	Q-o-Q (%)
Revenue	15,759	15,448	13,809	11,818	12,245	11,949	14,397	4%	20%
Consumption of raw materials	7,074	7,194	6,946	5,839	5,811	5,454	7,220	4%	32%
<i>as % of sales</i>	<i>44.9%</i>	<i>46.6%</i>	<i>50.3%</i>	<i>49.4%</i>	<i>47.5%</i>	<i>45.6%</i>	<i>50.2%</i>		
Employee costs	1,470	1,474	1,343	1,599	1,639	1,550	1,611	20%	4%
<i>as % of sales</i>	<i>9.3%</i>	<i>9.5%</i>	<i>9.7%</i>	<i>13.5%</i>	<i>13.4%</i>	<i>13.0%</i>	<i>11.2%</i>		
R&D costs	490	550	580	470	580	670	690	19%	3%
<i>as % of sales</i>	<i>3.1%</i>	<i>3.6%</i>	<i>4.2%</i>	<i>4.0%</i>	<i>4.7%</i>	<i>5.6%</i>	<i>4.8%</i>		
Other expenditure	2236	2195	2085	2242	2336	2461	2461	18%	0%
<i>as % of sales</i>	<i>14.2%</i>	<i>14.2%</i>	<i>15.1%</i>	<i>19.0%</i>	<i>19.1%</i>	<i>20.6%</i>	<i>17.1%</i>		
EBITDA	4,489	4,036	2,855	1,667	1,879	1,814	2,415	-15%	33%
<i>Margins (%)</i>	<i>28.5%</i>	<i>26.1%</i>	<i>20.7%</i>	<i>14.1%</i>	<i>15.3%</i>	<i>15.2%</i>	<i>16.8%</i>		
Depreciation	818	844	870	906	934	984	1,023		
Other income	11	14	17	36	18	24	185		
Interest	401	427	531	392	424	508	505		
PBT	3,281	2,779	1,471	406	539	346	1,073	-27%	210%
Total tax	943	748	399	122	146	95	320		
<i>Tax Rate (%)</i>	<i>28.7%</i>	<i>26.9%</i>	<i>27.1%</i>	<i>30.0%</i>	<i>27.0%</i>	<i>27.3%</i>	<i>29.8%</i>		
PAT before MI	2,338	2,031	1,072	284	393	252	753	-30%	199%
Minority interest (MI)	-10	0	-43	-36	-24	-18	-3		
Adj. PAT before extraordinary items	2,328	2,030	1,030	248	370	233	750	-27%	221%
Extraordinary expenses	0	0	0	0	0	0	0		
Reported PAT	2,328	2,030	1,030	248	370	233	750	-27%	221%
No. of shares	537.4	538.7	538.7	538.7	538.7	540.0	540.0		
EPS	4.3	3.8	1.9	0.5	0.7	0.4	1.4		

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Margin break-up**

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (bps)	Q-o-Q (bps)
Margins (%)									
Gross	55%	53%	50%	51%	53%	54%	50%	15	-451
EBITDA	28%	26%	21%	14%	15%	15%	17%	-390	159
Adj. PAT	15%	13%	7%	2%	3%	2%	5%	-225	326
Effective tax rate	29%	27%	27%	30%	27%	27%	30%	267	249

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Revenue break-up**

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	Y-o-Y (%)	Q-o-Q (%)
Antiviral API	4,017	3,729	3,499	4,060	3,711	3,501	4,098	17%	17%
<i>% total revenue</i>	<i>25.5%</i>	<i>24.1%</i>	<i>25.3%</i>	<i>34.4%</i>	<i>30.3%</i>	<i>29.3%</i>	<i>28.5%</i>		
Oncology API	545	758	1,285	537	1,195	861	1,490	16%	73%
<i>% total revenue</i>	<i>3.5%</i>	<i>4.9%</i>	<i>9.3%</i>	<i>4.5%</i>	<i>9.8%</i>	<i>7.2%</i>	<i>10.3%</i>		
Other API	2,238	1,833	2,356	1,373	1,384	1,378	1,863	-21%	35%
<i>% total revenue</i>	<i>14.2%</i>	<i>11.9%</i>	<i>17.1%</i>	<i>11.6%</i>	<i>11.3%</i>	<i>11.5%</i>	<i>12.9%</i>		
FDF	1,490	2,490	3,930	2,850	3,320	3,670	4,300	9%	17%
<i>% total revenue</i>	<i>9.5%</i>	<i>16.1%</i>	<i>28.5%</i>	<i>24.1%</i>	<i>27.1%</i>	<i>30.7%</i>	<i>29.9%</i>		
Synthesis	7,200	6,420	2,280	2,500	2,240	2,120	2,360	4%	11%
<i>% total revenue</i>	<i>45.7%</i>	<i>41.6%</i>	<i>16.5%</i>	<i>21.2%</i>	<i>18.3%</i>	<i>17.7%</i>	<i>16.4%</i>		
Bio ingredients / others	270	220	460	500	390	420	290	-37%	-31%
<i>% total revenue</i>	<i>1.7%</i>	<i>1.4%</i>	<i>3.3%</i>	<i>4.2%</i>	<i>3.2%</i>	<i>3.5%</i>	<i>2.0%</i>		
Total Revenue	15,759	15,448	13,809	11,818	12,245	11,950	14,400	4%	21%

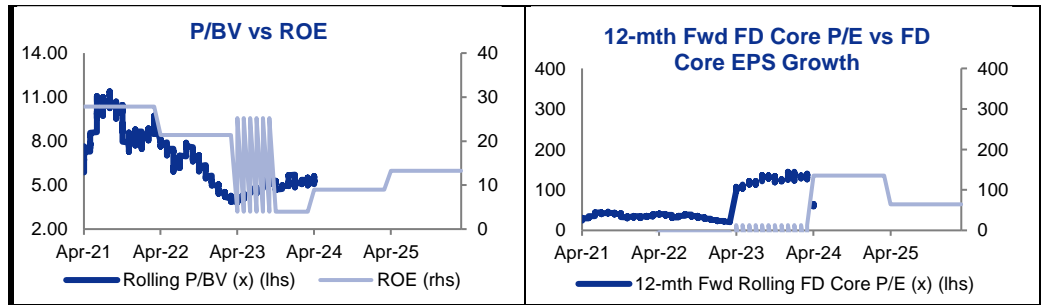
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: Changes in our earnings estimates**

Change in earnings estimates	FY25F			FY26F		
	Old	New	% change	Old	New	% change
Revenue	56,830	57,189	0.6	64,174	64,461	0.4
EBITDA	11,778	11,084	(5.9)	15,054	14,551	(3.3)
Margins	20.7	19.4		23.5	22.6	
PAT	4,326	3,819	(11.7)	6,626	6,258	(5.5)
EPS	8.0	7.0		12.2	11.5	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	49,356	60,406	50,408	57,189	64,461
<b>Gross Profit</b>	27,418	32,662	26,084	30,596	35,453
<b>Operating EBITDA</b>	14,224	15,922	7,775	11,084	14,551
Depreciation And Amortisation	(2,515)	(3,241)	(3,846)	(4,400)	(4,800)
<b>Operating EBIT</b>	11,709	12,681	3,929	6,684	9,751
Financial Income/(Expense)	(1,024)	(1,652)	(1,829)	(2,100)	(2,100)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	153	60	263	100	100
<b>Profit Before Tax (pre-EI)</b>	10,839	11,089	2,364	4,684	7,751
Exceptional Items					
<b>Pre-tax Profit</b>	10,839	11,089	2,364	4,684	7,751
Taxation	(2,515)	(3,123)	(682)	(1,265)	(2,093)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	8,324	7,966	1,682	3,419	5,658
Minority Interests	(49)	(65)	(59)	400	600
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	8,275	7,901	1,623	3,819	6,258
Recurring Net Profit	8,275	7,901	1,623	3,819	6,258
<b>Fully Diluted Recurring Net Profit</b>	8,275	7,901	1,623	3,819	6,258

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>EBITDA</b>	14,224	15,922	7,775	11,084	14,551
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,416)	(3,153)	(290)	1,000	(2,283)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(1,697)	(2,830)	(828)	(865)	(1,493)
Net Interest (Paid)/Received	(1,024)	(1,652)	(1,829)	(2,100)	(2,100)
Tax Paid	(826)	(1,239)	738	1,135	507
<b>Cashflow From Operations</b>	9,111	9,939	6,657	11,220	10,775
Capex	(8,767)	(9,875)	(6,760)	(8,000)	(8,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(276)	(223)			
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	68	(159)	(103)	3,220	2,775
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	(1,611)	(470)
<b>Cash Flow From Financing</b>	207	(122)	1,035	(2,691)	(1,553)
Total Cash Generated	274	(281)	932	528	1,222
<b>Free Cashflow To Equity</b>	9,179	9,780	6,554	14,439	13,549
<b>Free Cashflow To Firm</b>	10,203	11,432	8,383	16,539	15,649

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	1,945	3,167
Total Debtors	13,542	15,804	16,629	17,157	18,049
Inventories	17,603	16,848	18,454	20,016	20,627
Total Other Current Assets	1,536	1,480	1,850	2,002	2,256
<b>Total Current Assets</b>	<b>33,446</b>	<b>34,617</b>	<b>38,350</b>	<b>41,119</b>	<b>44,099</b>
Fixed Assets	32,086	37,002	40,475	44,075	47,275
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
<b>Total Non-current Assets</b>	<b>36,234</b>	<b>41,987</b>	<b>45,521</b>	<b>49,121</b>	<b>52,321</b>
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	11,027	9,971
Other Current Liabilities	6,690	5,111	3,522	6,249	6,780
<b>Total Current Liabilities</b>	<b>26,810</b>	<b>24,323</b>	<b>31,123</b>	<b>34,364</b>	<b>33,839</b>
Total Long-term Debt	5,963	7,614	7,982	8,371	9,901
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,316	4,181	3,610	3,610	3,610
<b>Total Non-current Liabilities</b>	<b>9,280</b>	<b>11,795</b>	<b>11,592</b>	<b>11,980</b>	<b>13,510</b>
Total Provisions					
<b>Total Liabilities</b>	<b>36,090</b>	<b>36,117</b>	<b>42,715</b>	<b>46,345</b>	<b>47,349</b>
Shareholders Equity	33,512	40,375	41,110	44,249	50,024
Minority Interests	79	111	46	(354)	(954)
<b>Total Equity</b>	<b>33,591</b>	<b>40,487</b>	<b>41,156</b>	<b>43,895</b>	<b>49,070</b>

**Key Ratios**

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	2.5%	22.4%	(16.6%)	13.5%	12.7%
Operating EBITDA Growth	(8.3%)	11.9%	(51.2%)	42.6%	31.3%
Operating EBITDA Margin	28.8%	26.4%	15.4%	19.4%	22.6%
Net Cash Per Share (Rs)	(30.73)	(35.71)	(43.91)	(43.65)	(44.22)
BVPS (Rs)	62.21	74.95	76.31	82.14	92.86
Gross Interest Cover	11.44	7.68	2.15	3.18	4.64
Effective Tax Rate	23.2%	28.2%	28.8%	27.0%	27.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	98.37	88.66	117.42	107.82	99.67
Inventory Days	277.50	226.63	264.87	264.01	255.71
Accounts Payables Days	170.96	104.40	132.19	147.82	132.11
ROIC (%)	16.5%	15.0%	4.4%	7.2%	9.7%
ROCE (%)	26.0%	22.8%	6.2%	9.9%	13.4%
Return On Average Assets	14.3%	12.6%	3.8%	5.7%	7.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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