



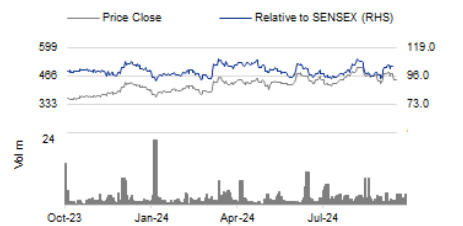
India

HOLD (previously *REDUCE*)

Consensus ratings*:	Buy 5	Hold 2	Sell 9
Current price:	Rs447		
Target price:	Rs455 ▲		
Previous target:	Rs307		
Up/downside:	1.8%		
InCred Research / Consensus:	14.3%		
Reuters:	LAURUS IN		
Bloomberg:	US\$2,868m		
Market cap:	Rs241,166m		
Average daily turnover:	US\$14.3m		
	Rs1200.9m		
Current shares o/s:	538.7m		
Free float:	72.8%		
*Source: Bloomberg			

Key changes in this note

- Upgrade our rating to HOLD from REDUCE.
- Raise our target price to Rs455 from Rs307.
- Revise our FY25F/26F EPS estimates by +3%/-1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.9)	2.9	23.4
Relative (%)	1.2	2.9	(1.3)

Major shareholders	% held
Promoters	27.2
Capital group	9.4
Amansa	4.1

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Laurus Labs

Performance close to the bottom?

- An in-line 2Q performance based on our low expectations; a sharp miss vs. consensus. 4QFY25F should reflect a meaningful shift in earnings trajectory.
- For the last two quarters, gross margin broadly sustained at around the 55% level. Revenue pick-up can thus drive a meaningful margin upside.
- Our FY25F/26F EPS estimates are nearly unchanged. Upgrade our rating on the stock to HOLD as we feel we are getting closer to earnings reversal cycle.

2QFY25 performance in line with expectations

Laurus Labs' 2QFY25 performance aligned with our expectations but fell significantly short of the Bloomberg or BB consensus expectations (margin 100bp lower than the BB consensus estimate). For the last two quarters, the gross margin broadly sustained around the 55% level while the lower EBITDA margin was largely on account of lower asset utilization and negative operating leverage. The company has invested around Rs26bn over FY22-24 and will invest another Rs18-20bn in FY25F/26F. Further, Laurus Labs has invested around Rs4.7bn across technologies (gene therapy/cell therapy/precision fermentation, etc.) – these initiatives are yet to contribute meaningfully and have been dragging the margin. We expect the margin trajectory to reverse from here on, with some ramp-up in CDMO supplies for the animal health contracts (typically higher gross margin contracts) from 3QFY25F and a meaningful ramp-up from 4QFY25F. This should positively impact on the EBITDA margin too, and we expect a 4QFY25F exit run-rate of 25% (vs. 14.5% in 1HFY25).

Lower API sales but CDMO revenue picks up well

2QFY25 revenue was hit by lower API sales (lower demand in oncology APIs, temporary plant shutdown and continued pricing pressure), although the CDMO business was strong (up 33% YoY). FDF sales were flat YoY. Margin stood at 14.6%, impacted by negative operating leverage. Laurus Labs gave guidance of a 20% margin in FY25F, implying ~25% run-rate for 2HFY25F – we bake in 18.5% margin in FY25F, with an exit run-rate of 25% in 4QFY25F.

Stock price largely underperforms the broader market

Our negative stance on Laurus Labs over the past five-to-six quarters was driven by the anticipated margin pressure & potential earnings cuts. While the stock price has held steady in absolute terms, it has underperformed the BSE Healthcare Index by nearly 30% over the past one year. We now see an earnings recovery on the horizon, with margins expected to rebound to ~25% by 4QFY25F. Our FY26F margin forecast of 22.5% (+400bp YoY) reflects this shift.

We upgrade the stock's rating to HOLD from REDUCE

Our FY25F/26F earnings estimates remain largely unchanged. With earnings recovery imminent, we upgrade the stock's rating to HOLD (from REDUCE), valuing it at 47x FY26F EPS, leading to a higher target price of Rs455 (Rs307 earlier). Downside risks: Slower-than-expected margin improvement. Upside risk: Faster recovery in margin.

Financial Summary	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	49,356	60,406	50,408	53,310	61,517
Operating EBITDA (Rsm)	14,224	15,922	7,775	9,881	13,847
Net Profit (Rsm)	8,275	7,901	1,623	2,628	5,244
Core EPS (Rs)	15.4	14.7	3.0	4.9	9.7
Core EPS Growth	(15.9%)	(4.5%)	(79.5%)	61.9%	99.6%
FD Core P/E (x)	29.12	30.50	148.49	91.70	45.95
DPS (Rs)	1.6	4.0	2.0	2.0	2.0
Dividend Yield	0.36%	0.89%	0.45%	0.45%	0.45%
EV/EBITDA (x)	18.09	16.32	33.88	26.64	19.14
P/FCFE (x)	26.25	24.64	36.77	16.74	22.84
Net Gearing	49.3%	47.5%	57.5%	55.2%	54.1%
P/BV (x)	7.19	5.97	5.86	5.64	5.13
ROE	27.8%	21.4%	4.0%	6.3%	11.7%
% Change In Core EPS Estimates				2.83%	(0.66%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rsm)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	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	0%	2%
Consumption of raw materials	7,074	7,194	6,946	5,839	5,811	5,454	7,220	5,369	5,483	-6%	2%
<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>	<i>44.9%</i>	<i>44.8%</i>		
Employee costs	1,470	1,474	1,343	1,599	1,639	1,550	1,611	1,740	1,787	9%	3%
<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>	<i>14.6%</i>	<i>14.6%</i>		
R&D costs	490	550	580	470	580	670	690	640	670	16%	5%
<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>	<i>5.4%</i>	<i>5.5%</i>		
Other expenditure	2236	2195	2085	2242	2336	2461	2461	2489	2514	8%	1%
<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>	<i>20.8%</i>	<i>20.5%</i>		
EBITDA	4,489	4,036	2,855	1,667	1,879	1,814	2,415	1,712	1,783	-5%	4%
<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>	<i>14.3%</i>	<i>14.6%</i>		
Depreciation	818	844	870	906	934	984	1,023	1,061	1,075		
Other income	11	14	17	36	18	24	185	25	46		
Interest	401	427	531	392	424	508	505	492	526		
PBT	3,281	2,779	1,471	406	539	346	1,073	185	228	-58%	24%
Total tax	943	748	399	122	146	95	320	63	51		
<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>	<i>33.9%</i>	<i>22.3%</i>		
PAT before MI	2,338	2,031	1,072	284	393	252	753	122	177	-55%	45%
Minority interest (MI)	-10	0	-43	-36	-24	-18	-3	5	22		
Adj. PAT before extraordinary items	2,328	2,030	1,030	248	370	233	750	127	200	-46%	57%
Extraordinary expenses	0	0	0	0	0	0	0	0	0		
Reported PAT	2,328	2,030	1,030	248	370	233	750	127	200	-46%	57%
No. of shares	537.4	538.7	538.7	538.7	538.7	540.0	540.0	538.7	538.7		
EPS	4.3	3.8	1.9	0.5	0.7	0.4	1.4	0.2	0.4		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(in %)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Gross	55%	53%	50%	51%	53%	54%	50%	55%	55%	265	12
EBITDA	28%	26%	21%	14%	15%	15%	17%	14%	15%	-77	25
Adj. PAT	15%	13%	7%	2%	3%	2%	5%	1%	2%	-139	57
Effective tax rate	29%	27%	27%	30%	27%	27%	30%	34%	22%	-472	-1154

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue mix

(Rs m)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	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	-1%	-8%
<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>	<i>33.3%</i>	<i>30.0%</i>		
Oncology API	545	758	1,285	537	1,195	861	1,490	1,195	501	-58%	-58%
<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>	<i>10.0%</i>	<i>4.1%</i>		
Other API	2,238	1,833	2,356	1,373	1,384	1,378	1,863	1,461	1,393	1%	-5%
<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>	<i>12.2%</i>	<i>11.4%</i>		
FDF	1,490	2,490	3,930	2,850	3,320	3,670	4,300	2,740	3,280	-1%	20%
<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>	<i>22.9%</i>	<i>26.8%</i>		
Synthesis	7,200	6,420	2,280	2,500	2,240	2,120	2,360	2,140	2,990	33%	40%
<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>	<i>17.9%</i>	<i>24.4%</i>		
Bio-ingredients / other	270	220	460	500	390	420	290	430	400	3%	-7%
<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>	<i>3.6%</i>	<i>3.3%</i>		
Total Revenue	15,759	15,448	13,809	11,818	12,245	11,950	14,400	11,949	12,237	0%	2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs estimates

	Actuals	Incred Est.	Variance (%)	Bloomberg Est.	Variance (%)
Revenue (Rs. m.)	12,237	12,515	-2.2	12,822	-4.6
EBITDA (Rs. m)	1,783	1,758	1.4	2,001	-10.9
Margin (%)	14.6	14.0		15.6	
PAT (Rs. m)	200	178	11.8	325	-38.6

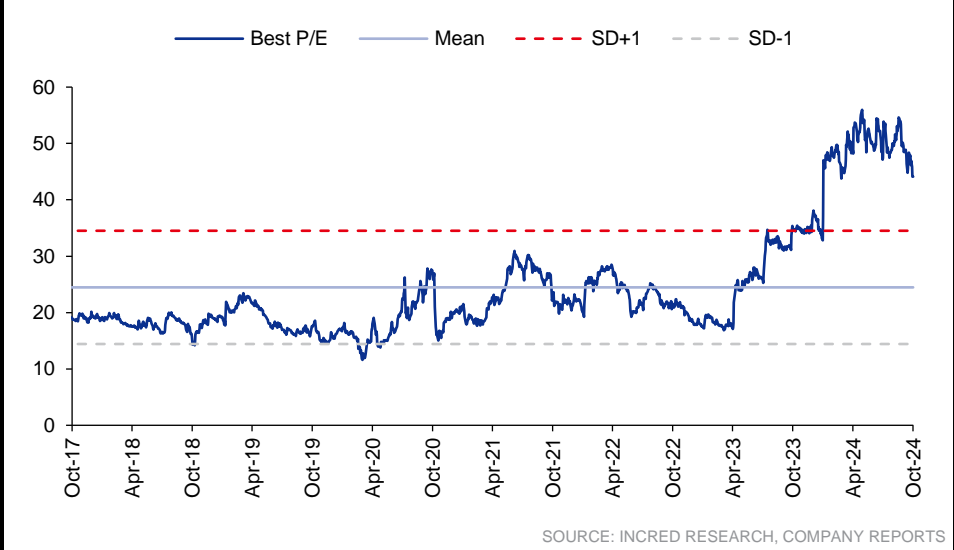
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

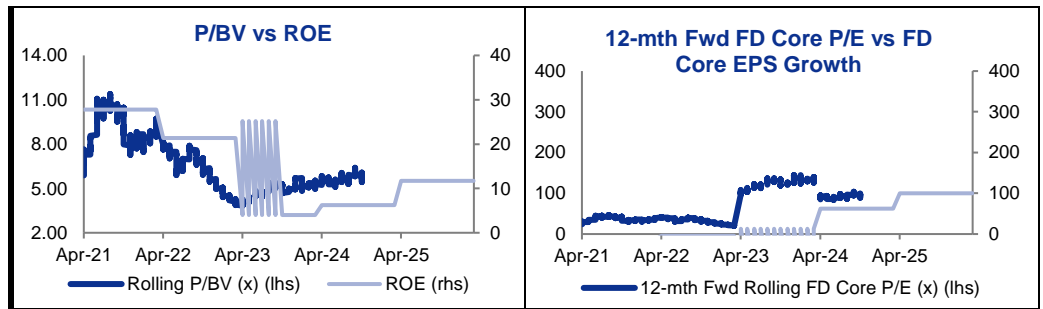
	FY25F			FY26F		
	Old	New	% change	Old	New	% change
Revenue (Rsm)	54,465	53,310	(2.1)	62,521	61,517	(1.6)
EBITDA (Rsm)	9,627	9,881	2.6	13,484	13,847	2.7
Margin (%)	17.7	18.5		21.6	22.5	
PAT (Rsm)	2,555	2,628	2.8	5,279	5,244	(0.7)
EPS (Rs)	4.7	4.8		9.7	9.6	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Laurus Labs is trading at SD+2, which is way above the long-term average



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	53,310	61,517
Gross Profit	27,418	32,662	26,084	29,640	35,065
Operating EBITDA	14,224	15,922	7,775	9,881	13,847
Depreciation And Amortisation	(2,515)	(3,241)	(3,846)	(4,300)	(4,800)
Operating EBIT	11,709	12,681	3,929	5,581	9,047
Financial Income/(Expense)	(1,024)	(1,652)	(1,829)	(2,160)	(2,100)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	153	60	263	131	100
Profit Before Tax (pre-EI)	10,839	11,089	2,364	3,552	7,047
Exceptional Items					
Pre-tax Profit	10,839	11,089	2,364	3,552	7,047
Taxation	(2,515)	(3,123)	(682)	(995)	(1,903)
Exceptional Income - post-tax					
Profit After Tax	8,324	7,966	1,682	2,558	5,144
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	2,628	5,244
Recurring Net Profit	8,275	7,901	1,623	2,628	5,244
Fully Diluted Recurring Net Profit	8,275	7,901	1,623	2,628	5,244

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	14,224	15,922	7,775	9,881	13,847
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,416)	(3,153)	(290)	2,239	(2,768)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(1,697)	(2,830)	(828)	(925)	(1,803)
Net Interest (Paid)/Received	(1,024)	(1,652)	(1,829)	(2,160)	(2,100)
Tax Paid	(826)	(1,239)	738	1,104	197
Cashflow From Operations	9,111	9,939	6,657	11,195	9,276
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)	3,195	1,276
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	(2,331)	(992)
Cash Flow From Financing	207	(122)	1,035	(3,411)	(2,075)
Total Cash Generated	274	(281)	932	(216)	(798)
Free Cashflow To Equity	9,179	9,780	6,554	14,391	10,552
Free Cashflow To Firm	10,203	11,432	8,383	16,551	12,652

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	1,201	402
Total Debtors	13,542	15,804	16,629	15,993	17,225
Inventories	17,603	16,848	18,454	18,659	19,686
Total Other Current Assets	1,536	1,480	1,850	1,866	2,153
Total Current Assets	33,446	34,617	38,350	37,718	39,466
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	10,122	9,307
Other Current Liabilities	6,690	5,111	3,522	5,736	6,329
Total Current Liabilities	26,810	24,323	31,123	32,946	32,724
Total Long-term Debt	5,963	7,614	7,982	7,680	8,688
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	11,289	12,297
Total Provisions					
Total Liabilities	36,090	36,117	42,715	44,235	45,021
Shareholders Equity	33,512	40,375	41,110	42,727	46,989
Minority Interests	79	111	46	(24)	(124)
Total Equity	33,591	40,487	41,156	42,704	46,865

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	2.5%	22.4%	(16.6%)	5.8%	15.4%
Operating EBITDA Growth	(8.3%)	11.9%	(51.2%)	27.1%	40.1%
Operating EBITDA Margin	28.8%	26.4%	15.4%	18.5%	22.5%
Net Cash Per Share (Rs)	(30.73)	(35.71)	(43.91)	(43.75)	(47.10)
BVPS (Rs)	62.21	74.95	76.31	79.32	87.23
Gross Interest Cover	11.44	7.68	2.15	2.58	4.31
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	111.68	98.55
Inventory Days	277.50	226.63	264.87	286.15	264.54
Accounts Payables Days	170.96	104.40	132.19	159.10	134.04
ROIC (%)	16.5%	15.0%	4.4%	6.1%	9.1%
ROCE (%)	26.0%	22.8%	6.2%	8.3%	12.9%
Return On Average Assets	14.3%	12.6%	3.8%	4.9%	7.5%

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.