

India

HOLD (no change)

Consensus ratings*: Buy 6 Hold 4 Sell 6

Current price:	Rs646
Target price:	Rs640
Previous target:	Rs640
Up/downside:	0.0%
InCred Research / Consensus:	9.3%

Reuters:	
Bloomberg:	LAURUS IN
Market cap:	US\$4,082m
	Rs348,088m
Average daily turnover:	US\$22.4m
	Rs1911.3m
Current shares o/s:	539.3m
Free float:	72.8%

*Source: Bloomberg

Key changes in this note

- Cut FY26F EPS by 8%.
- Introduce FY27F estimates and roll forward our valuation.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.6	7.1	48.6
Relative (%)	1.3	2.3	38.4

Major shareholders	% held
Promoters	27.2
Capital group	9.4
Amansa	4.1

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Laurus Labs

Earnings cycle set for a reversal

- Continues its recovery momentum in 4Q and posts an in-line performance. The EBITDA growth of 74% YoY highlights its operating leverage play.
- Invested ~Rs32bn in the business in last three years; despite low utilization, decides to sustain capex cycle with additional spending of Rs10bn in FY26F.
- We cut FY26F EPS by 8%. Maintain HOLD rating on the stock as we believe the current valuation captures most of the positives.

Recovery momentum continues; delivers strong performance in 2H

Laurus Labs continued its recovery momentum in 4QFY25 and posted performance that was broadly in line with our expectations. The company showed strong growth in 2H and delivered 19% YoY growth (vs. 1% in 1H). EBITDA grew 74% YoY/48% QoQ with margin at 24.4% highlighting the company's operating leverage play. During 4Q, the custom synthesis business witnessed significant growth of 87% YoY driven by several mid-to-late stage NCE deliveries and a steady increase in sales from new manufacturing units. Laurus Labs is set to leverage the extensive investments made in recent years as revenue recovery is expected to gain momentum in FY26F and FY27F. Other income included a one-off profit of Rs588m, adjusted for which the PAT growth was 132% YoY/ 87% QoQ. A robust performance is anticipated in FY26F-27F, with EBITDA margin expected to reach 25% by FY27F as the CDMO business scales, particularly with the animal health contract achieving its peak by FY27F and the crop science business picking up.

Capex cycle to continue in FY26F

Between FY22-25, the company invested ~Rs32bn into the business, including Rs4.7bn towards advanced technologies such as gene therapy, cell therapy, and precision fermentation. Although these initiatives have yet to yield significant contribution, they currently exert pressure on margin. Despite sub-optimal capacity utilization (asset turnover at 0.8x vs. 1.1x historically), Laurus Labs decided to sustain its capex cycle with an additional spending of Rs10bn in FY26F. We have reservations regarding the capital allocation policy and believe a more prudent strategy could enhance overall profitability and the return ratios.

Other conference-call highlights

1) ImmunoAct is carrying Phase-1 clinical trials of NexCAR19 for pediatric use. It also received approval to start Phase-1 India trials for BCMA - indicated for relapsed /refractory multiple myeloma. 2) ADC has received a request from its partner to manufacture conjugates. Currently, ADC revenue is just a few million in US\$ terms.

Retain HOLD rating with an unchanged target price of Rs640

We have introduced FY27F estimates and rolled forward our valuation to the same period. Our FY26F EPS stands revised downwards by 8%. While the earnings recovery is significant, we understand the current valuation captures most of the positives. We retain our HOLD rating on the stock with a target price of Rs640. Key downside risk is a slower-than-expected margin improvement, while a faster recovery could be an upside risk.

Financial Summary	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue (Rsm)	60,406	50,408	55,537	64,935	74,397
Operating EBITDA (Rsm)	15,922	7,775	10,550	15,045	18,546
Net Profit (Rsm)	7,901	1,623	3,580	6,119	8,579
Core EPS (Rs)	14.7	3.0	6.6	11.3	15.9
Core EPS Growth	(4.5%)	(79.5%)	120.6%	70.9%	40.2%
FD Core P/E (x)	44.05	214.51	97.22	56.89	40.58
DPS (Rs)	4.0	2.0	0.8	0.8	2.0
Dividend Yield	0.62%	0.31%	0.12%	0.12%	0.31%
EV/EBITDA (x)	23.05	47.66	35.31	24.92	20.04
P/FCFE (x)	35.59	53.11	52.57	34.77	20.00
Net Gearing	47.5%	57.5%	55.4%	54.0%	41.7%
P/BV (x)	8.62	8.47	7.78	6.89	5.92
ROE	21.4%	4.0%	8.3%	12.8%	15.7%
% Change In Core EPS Estimates				(7.66%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Financial summary

(Rsm)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	Y-o-Y (%)	Q-o-Q (%)
Revenue	13,809	11,818	12,245	11,949	14,397	11,949	12,237	14,151	17,203	19%	22%
Consumption of raw materials	6,946	5,839	5,811	5,454	7,220	5,369	5,483	6,102	7,827	8%	28%
as % of sales	50.3%	49.4%	47.5%	45.6%	50.2%	44.9%	44.8%	43.1%	45.5%		
Employee costs	1,343	1,599	1,639	1,550	1,611	1,740	1,787	1,891	1,777	10%	-6%
as % of sales	9.7%	13.5%	13.4%	13.0%	11.2%	14.6%	14.6%	13.4%	10.3%		
R&D costs	580	470	580	670	690	640	670	600	660	-4%	10%
as % of sales	4.2%	4.0%	4.7%	5.6%	4.8%	5.4%	5.5%	4.2%	3.8%		
Other expenditure	2085	2242	2336	2461	2461	2489	2514	2706	2733	11%	1%
as % of sales	15.1%	19.0%	19.1%	20.6%	17.1%	20.8%	20.5%	19.1%	15.9%		
EBITDA	2,855	1,667	1,879	1,814	2,415	1,712	1,783	2,852	4,206	74%	48%
Margins (%)	20.7%	14.1%	15.3%	15.2%	16.8%	14.3%	14.6%	20.2%	24.4%		
Depreciation	870	906	934	984	1,023	1,061	1,075	1,061	1,104		
Other income	17	36	18	24	185	25	46	94	586		
Interest	531	392	424	508	505	492	526	578	564		
PBT	1,471	406	539	346	1,073	185	228	1,307	3,123	191%	139%
Total Tax	399	122	146	95	320	63	51	401	785		
Tax Rate (%)	27.1%	30.0%	27.0%	27.3%	29.8%	33.9%	22.3%	30.7%	25.1%		
PAT before MI	1,072	284	393	252	753	122	177	906	2,339	211%	158%
Minority interest (MI)	-43	-36	-24	-18	-3	5	22	23	-11		
Adj. PAT before extraordinary items	1,030	248	370	233	750	127	200	929	2,328	210%	150%
Extraordinary expenses	0	0	0	0	0	0	0	0	0		
Reported PAT	1,030	248	370	233	750	127	200	929	2,328	210%	150%
No. of shares	538.7	538.7	538.7	540.0	540.0	538.7	538.7	539.3	539.3		
EPS	1.9	0.5	0.7	0.4	1.4	0.2	0.4	1.7	4.3		

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin profile

(in %)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	Y-o-Y (bp)	Q-o-Q (bp)
Margins (%)											
Gross	50%	51%	53%	54%	50%	55%	55%	57%	55%	465	-238
EBITDA	21%	14%	15%	15%	17%	14%	15%	20%	24%	768	430
Adj.PAT	7%	2%	3%	2%	5%	1%	2%	7%	14%	832	696
Effective tax rate	27%	30%	27%	27%	30%	34%	22%	31%	25%	-466	-554

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Revenue mix

(Rs m)	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	Y-o-Y (%)	Q-o-Q (%)
API	7,140	5,970	6,290	5,740	7,450	6,640	5,570	5,310	6,860	-8%	29%
% total revenue	51.7%	50.5%	51.4%	48.0%	51.7%	55.6%	45.5%	37.5%	39.9%		
FDF	3,930	2,850	3,320	3,670	4,300	2,740	3,280	4,360	5,440	27%	25%
% total revenue	28.5%	24.1%	27.1%	30.7%	29.9%	22.9%	26.8%	30.8%	31.6%		
Synthesis	2,280	2,500	2,240	2,120	2,360	2,140	2,990	4,000	4,610	95%	15%
% total revenue	16.5%	21.2%	18.3%	17.7%	16.4%	17.9%	24.4%	28.3%	26.8%		
Bio-ingredients / other	460	500	390	420	290	430	400	480	290	0%	-40%
% total revenue	3.3%	4.2%	3.2%	3.5%	2.0%	3.6%	3.3%	3.4%	1.7%		
Total revenue	13,809	11,818	12,245	11,950	14,400	11,949	12,237	14,151	17,200	19%	22%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals versus estimates

	Actuals	Incared Estimates	Variance (%)	Bloomberg Estimates	Variance (%)
Revenue (Rs m)	17,203	16,484	4.4	16,376	5.1
EBITDA (Rs m)	4,206	4,139	1.6	4,035	4.2
Margin (%)	24.4	25.1		24.6	
PAT (Rs m)	2,328	1,851	25.7	1,811	28.5

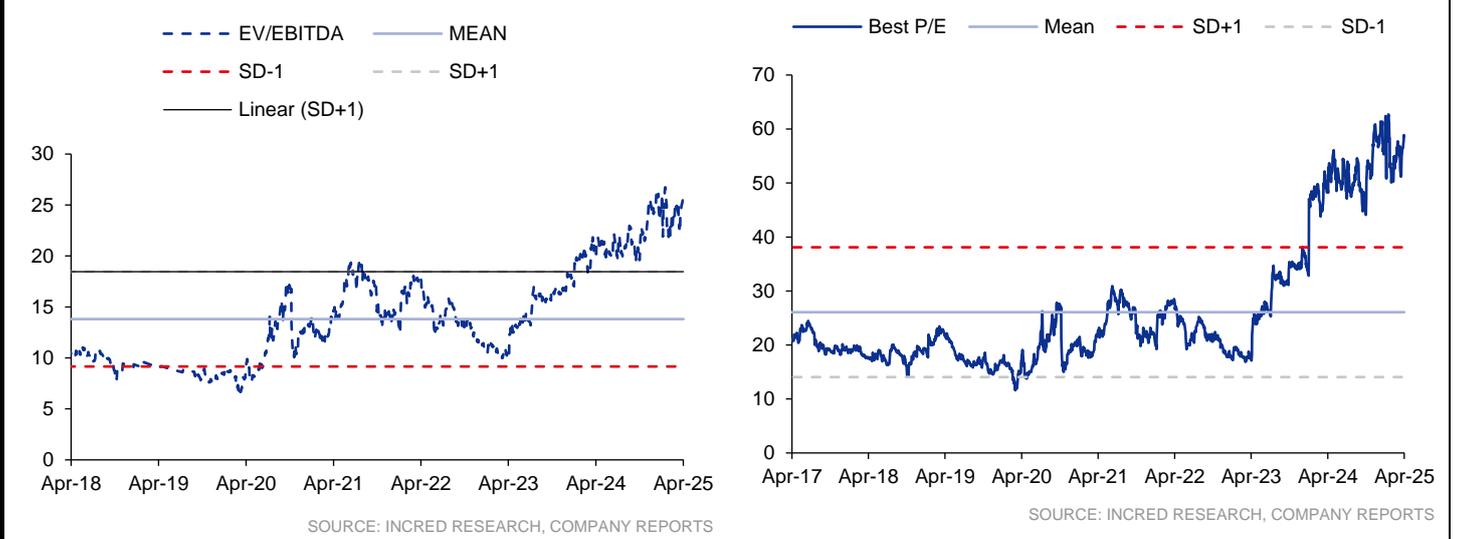
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

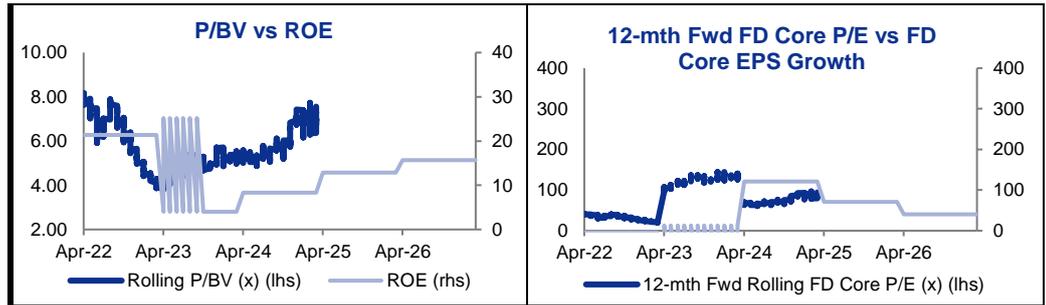
	FY26F		% change
	Old	New	
Revenue (Rs m)	65,766	64,935	(1.3)
EBITDA (Rs m)	15,581	15,045	(3.4)
Margins (%)	23.7	23.2	
PAT (Rs m)	6,619	6,119	(7.6)
EPS (Rs)	12.1	11.3	

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 mark



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	64,935	74,397
Gross Profit	32,662	26,084	30,757	36,688	42,406
Operating EBITDA	15,922	7,775	10,550	15,045	18,546
Depreciation And Amortisation	(3,241)	(3,846)	(4,301)	(4,800)	(5,200)
Operating EBIT	12,681	3,929	6,249	10,245	13,346
Financial Income/(Expense)	(1,652)	(1,829)	(2,160)	(2,250)	(2,000)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	60	263	751	250	200
Profit Before Tax (pre-EI)	11,089	2,364	4,840	8,245	11,546
Exceptional Items					
Pre-tax Profit	11,089	2,364	4,840	8,245	11,546
Taxation	(3,123)	(682)	(1,299)	(2,226)	(3,117)
Exceptional Income - post-tax					
Profit After Tax	7,966	1,682	3,541	6,019	8,429
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	6,119	8,579
Recurring Net Profit	7,901	1,623	3,580	6,119	8,579
Fully Diluted Recurring Net Profit	7,901	1,623	3,580	6,119	8,579

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
EBITDA	15,922	7,775	10,550	15,045	18,546
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,153)	(290)	(3,746)	(2,914)	(3,377)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(2,830)	(828)	(787)	(2,126)	(2,967)
Net Interest (Paid)/Received	(1,652)	(1,829)	(2,160)	(2,250)	(2,000)
Tax Paid	(1,239)	738	619	(126)	(1,167)
Cashflow From Operations	9,939	6,657	6,017	10,005	12,201
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	5	5,201
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)	(489)	(3,305)
Cash Flow From Financing	(122)	1,035	(580)	(920)	(3,736)
Total Cash Generated	(281)	932	26	(915)	1,465
Free Cashflow To Equity	9,780	6,554	6,622	10,010	17,403
Free Cashflow To Firm	11,432	8,383	8,782	12,260	19,403

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	527	1,992
Total Debtors	15,804	16,629	20,072	22,078	23,807
Inventories	16,848	18,454	19,365	22,078	24,551
Total Other Current Assets	1,480	1,850	2,444	2,273	2,604
Total Current Assets	34,617	38,350	43,323	46,956	52,954
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	9,855	10,185
Other Current Liabilities	5,111	3,522	5,337	6,701	7,528
Total Current Liabilities	24,323	31,123	35,397	37,031	38,187
Total Long-term Debt	7,614	7,982	6,456	7,967	6,462
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	13,444	11,939
Total Provisions					
Total Liabilities	36,117	42,715	47,331	50,476	50,127
Shareholders Equity	40,375	41,110	44,726	50,513	58,810
Minority Interests	111	46	1,300	1,200	1,050
Total Equity	40,487	41,156	46,025	51,713	59,860

Key Ratios					
	Mar-23A	Mar-24A	Mar-25A	Mar-26F	Mar-27F
Revenue Growth	22.4%	(16.6%)	10.2%	16.9%	14.6%
Operating EBITDA Growth	11.9%	(51.2%)	35.7%	42.6%	23.3%
Operating EBITDA Margin	26.4%	15.4%	19.0%	23.2%	24.9%
Net Cash Per Share (Rs)	(35.67)	(43.86)	(47.27)	(51.77)	(46.26)
BVPS (Rs)	74.87	76.23	82.94	93.67	109.06
Gross Interest Cover	7.68	2.15	2.89	4.55	6.67
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	118.46	112.56
Inventory Days	226.63	264.87	278.54	267.76	266.01
Accounts Payables Days	104.40	132.19	148.01	125.60	114.32
ROIC (%)	15.0%	4.4%	6.3%	9.3%	11.4%
ROCE (%)	22.8%	6.2%	9.0%	13.4%	16.0%
Return On Average Assets	12.6%	3.8%	5.8%	7.9%	9.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

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CIN: U74999MH2016PTC287535

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.