India

Underweight *(Initiating coverage)*

Highlighted Companies

Divi's Laboratories
REDUCE, TP Rs3438, **Rs3681 close**
Slowing growth; correcting valuation.

Gland Pharma Ltd
HOLD, TP Rs2699, **Rs2644 close**
Multiples have a bit more room to correct.

Laurus Labs
ADD, TP Rs626, **Rs467 close**
Attractive even at 60% target achievement.

Summary Valuation Metrics

P/E (x)	Mar22-F	Mar23-F	Mar24-F
Divi's Laboratories	33	35.56	33.16
Gland Pharma Ltd	35.85	31.84	27.81
Laurus Labs	30.13	21.29	17.53

P/BV (x)	Mar22-F	Mar23-F	Mar24-F
Divi's Laboratories	8.33	7.14	6.07
Gland Pharma Ltd	6.07	5.1	4.31
Laurus Labs	7.48	5.64	4.35

Dividend Yield	Mar22-F	Mar23-F	Mar24-F
Divi's Laboratories	0%	0%	0%
Gland Pharma Ltd	0%	0%	0%
Laurus Labs	0.34%	0.43%	0.43%

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Pharmaceuticals

Lull before next upswing

- Accelerated growth of two years has created a high-base headwind for Indian pharma contract manufacturers. Also, valuations have more room to correct.
- Long-term opportunity in the space remains attractive and India is better placed than other low-cost destinations.
- Initiate coverage on Divi's Labs with a Reduce rating & Gland Pharma with a Hold as we await further correction in multiples. Laurus Labs has an Add rating.

Great run so far; high base is a headwind

Most Indian pharmaceutical contract manufacturers witnessed accelerated growth in FY21 and FY22, thanks mostly to heightened demand for some old active pharmaceutical ingredients or APIs as well as sudden demand for manufacturing new drugs on a large scale. The unusual demand was driven primarily by the Covid-19 pandemic. The high base of FY21 and FY22 presents some near-term growth challenges for the sector.

Valuations have come off but there is more room to correct

The sudden and unexpected growth spurt of FY21 and FY22 also led to a sudden boost to valuations of large contract manufacturers - Divi's, Syngene and Gland Pharma - that used to trade at or below 30x one-year forward P/E, witnessing their P/E multiple expanding to as high as 60x one-year forward. The valuations have since corrected significantly, but we believe that there is some more room for a correction before the stocks in the sector look attractive.

Long-term story intact for Indian players

The sharp upswing in global demand for pharma contract manufacturing in India is a very positive sign of capability and reliability of Indian players and shows the level of trust and relationships that they enjoy with global customers. This sets the stage for shift of the industry significantly to India - 74% of contract research and manufacturing companies are still located in the EU and the US. India is better placed than other low-cost destinations in terms of talent pool and a pharma manufacturing ecosystem.

Opportunity is large and growing

Industry estimates suggest that total outsourcing by the pharma industry topped around US$375bn in 2020 and is growing in mid-high single digits. Industry estimates also suggest that global pharma companies outsourced 42% of their R&D and manufacturing operations in 2020, up from 35% in 2016, and the proportion continues to grow. Thus, pharma contract research and manufacturing can remain a long-term secular growth opportunity for Indian players.

Underweight on sector but Laurus Labs is an exception

Given the large base of FY22 and the possible loss of extra demand that was Covid-driven and given the valuations that are even today sharply above the pre-Covid levels, we remain cautious on the sector. We prefer to wait out the potentially low growth in FY23F and see the valuations turn more attractive. Hence, we initiate coverage on Divi's Labs with a Reduce rating and a Hold rating on Gland Pharma. However, Laurus Labs is an exception where the stock is relatively undervalued at less than 22x FY23F core earnings. Hence, we initiate coverage on Laurus Labs with an Add rating.

Figure 1: Peer group valuation

Company	Rec	MktCap (US$bn)	CORE EPS (x) FY22	FY23F	FY24F	PER (x) FY22	FY23F	FY24F
Healthcare								
Divi's Laboratories	REDUCE	12.5	111.5	103.5	111.0	33.0	35.6	33.2
Gland Pharma Ltd	HOLD	5.6	73.7	83.0	95.1	35.8	31.8	27.8
Laurus Labs	ADD	3.2	15.5	21.9	26.6	30.1	21.3	17.5
Syngene International Ltd		2.9	9.87	13.95	18.41	54.1	50.9	43.8

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Pharma outsourcing business – large and growing

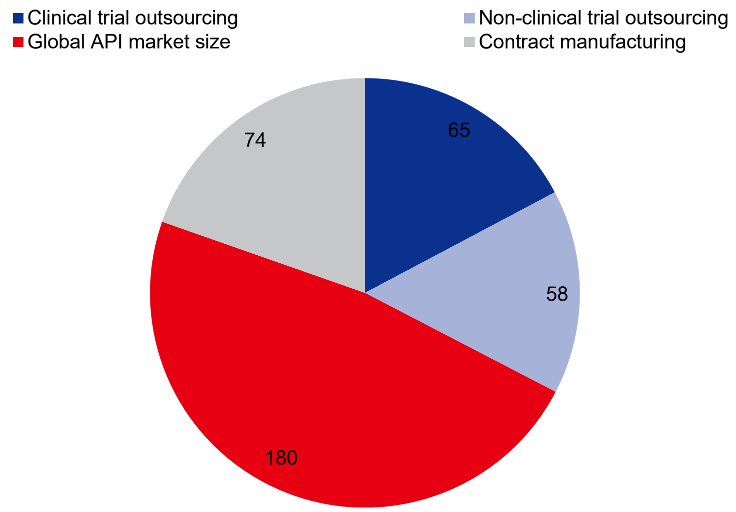
Outsourcing by the pharmaceutical industry worldwide, especially in the developed world, is one of the largest outsourcing opportunities. Industry estimates suggest that total outsourcing by the pharmaceutical industry topped about US$375bn in 2020 and is growing in mid-high single digits. Industry estimates also suggest that global pharmaceutical companies outsourced 42% of their R&D and manufacturing operations in 2020, up from 35% in 2016, and the proportion continues to grow.

Outsourcing by pharma companies presents multiple types of business opportunities which are listed below.

- Outsourcing of laboratory work in early-stage drug development.
- Outsourcing of animal studies in early-stage drug development.
- Outsourcing of phase-1 studies in early-stage drug development.
- Outsourcing of phase-2 and phase-3 clinical trials in late-stage drug development.
- Outsourcing of API (active pharmaceutical ingredient) and formulation manufacturing during the drug development phases.
- Outsourcing of API and formulation manufacturing after commercialization of the drug by the innovator company.
- Outsourcing of API and formulation manufacturing by generic companies after the loss of patent protection for the drug.

Of the total US$ 375bn, about US$125bn is the opportunity in R&D outsourcing, i.e., before commercialization of the drug. The remaining, about US$ 250bn, is the opportunity in outsourced manufacturing of commercialized drugs, including the global API market of US$180bn and the contract manufacturing opportunity of US$74bn for innovator companies.

Figure 2: The contract research & manufacturing pie (US$bn)



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Indian pharma outsourcing players have made considerable progress and garnered a significant share in all the above opportunities except outsourcing of phase-2 and phase-3 clinical trials. Given the regulatory preference for clinical trials to be done on local population, the clinical trial outsourcing opportunity has mostly been held back by companies from the developed world.

Outsourcing adds value to pharma companies

Outsourcing of R&D and manufacturing operations provide global pharma companies with great value enhancement by reducing the drug development timeline, cut the cost of development and reduce the cost of commercial manufacturing. In addition, it also releases significant management bandwidth for pharma companies, enabling them to focus on market strategy and product portfolio management.

Over the years, outsourcing companies have progressed from being just low-cost manufacturers to being specialists in R&D and manufacturing. The scale that some of the outsourcing companies have, the multiple products/clients with whom they work and the sheer focus on processes have made them much more efficient and reliable than pharma companies' in-house manufacturing machinery. Deep understanding of process chemistry often helps contract manufacturers to develop better processes of manufacturing a particular drug that will deliver better yields at a lower cost in a shorter timeframe, than pharma companies themselves.

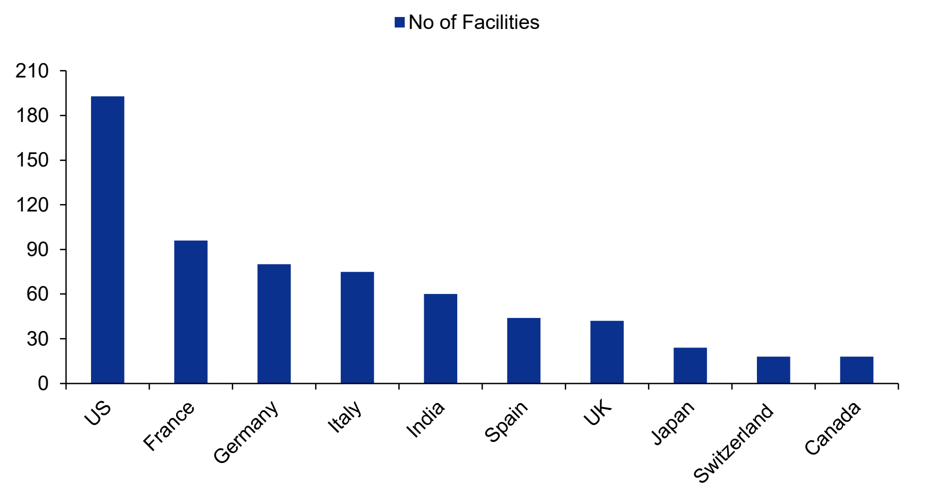
The regulatory expertise of outsourcing players is commendable as well. This is particularly evident in the Indian context where large, specialized contract manufacturers have witnessed a far fewer manufacturing quality issues raised by the US Food and Drug Administration or US FDA during its inspection process.

Fragmented sector presents an opportunity for large Indian players

Despite global consolidation in the pharma outsourcing industry over the last 15 years, the industry remains fragmented with top 20 players having only less than half of total industry revenue. Thus, the industry is highly fragmented and spread globally.

While global generic API manufacturing will remain fragmented and local to some extent, there is a solid case for further consolidation. The case for consolidation in the outsourcing of R&D and manufacturing by innovator companies is even stronger. For historic reasons, contract research and manufacturing companies are still more concentrated in the US and Europe. According to industry sources, 52% of contract research and manufacturing companies are in the EU and 22% are in North America. The current locations are skewed towards high-cost geographies and the ongoing consolidation process present a multi-year secular growth opportunity for Indian players. India is placed significantly better than competitors such as China, Vietnam, and Ireland, thanks to the large pool of human resources with technical knowhow, a large network of existing manufacturing facilities with regulatory approvals from global agencies and an overall ecosystem that can facilitate capacity addition.

Figure 3: Distribution of contract manufacturing facilities



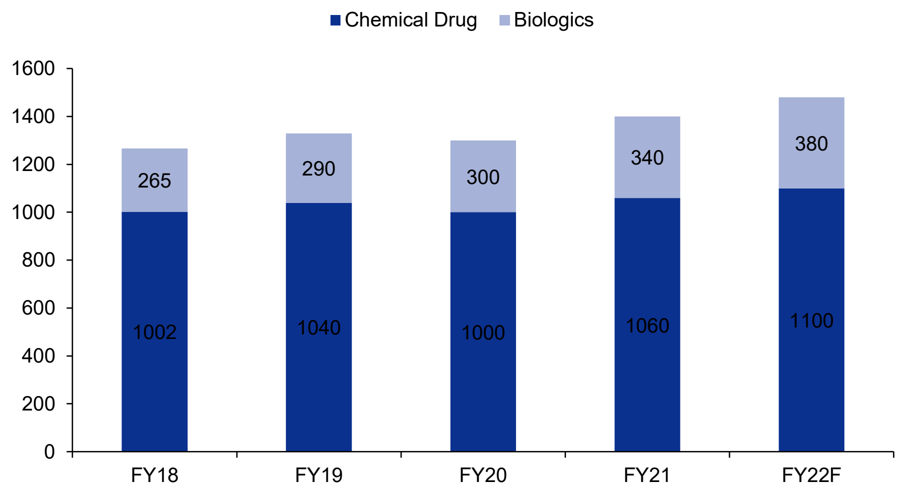
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Indian players have already started reaping the benefits of these tailwinds - India has already become the third-largest pharma outsourcing destination, as per industry sources. The explosive growth witnessed by large Indian players such as Divi's Labs, Laurus Labs, Gland Pharma and Syngene in recent years stand testimony to this. Indian Drug Manufacturers Association (IDMA) estimates that the industry is already about US$7bn big in terms of annual revenue and still growing at 20% per annum.

Biologics – an additional growth driver

Biologic drugs have, over the last two decades, picked up a significant share in the global pharmaceuticals market. As per industry estimate, biologic drugs account for close to half of global pharma revenue from patent-protected products and a third of overall global pharma market revenue. Biological drugs are large molecules compared to the chemical molecules. Development and manufacturing of biologic drugs involve biologic processes that often use live organisms and the processes are significantly more complex than small molecule manufacturing.

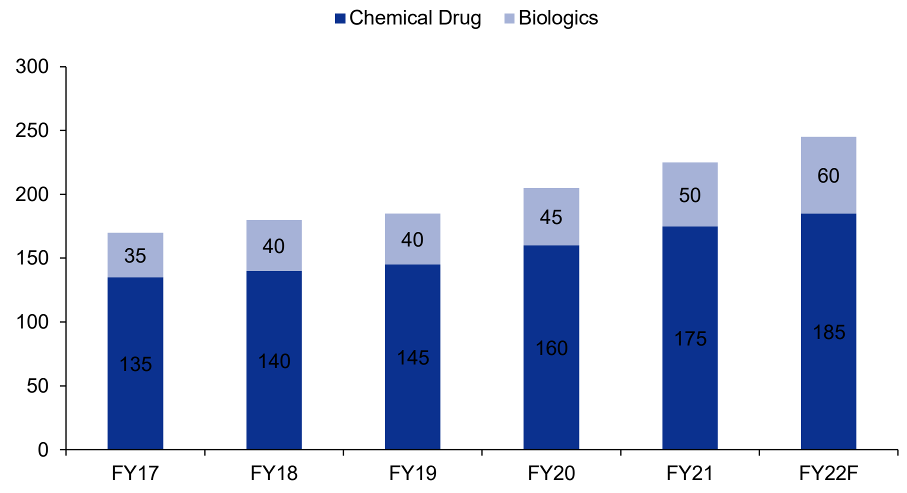
Figure 4: Global pharma market size (US$bn)



SOURCES: INCRED RESEARCH, COMPANY REPORTS

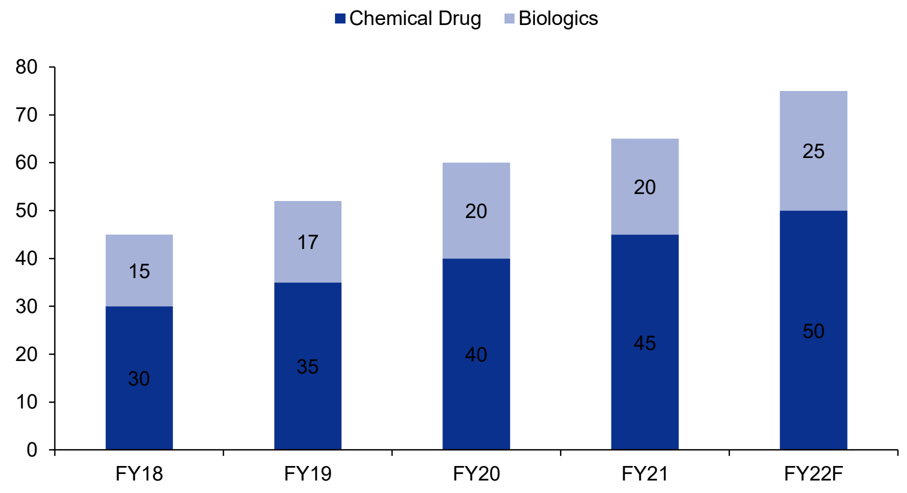
R&D spending by global pharma majors is increasingly being directed towards biologics, given the better effectiveness and price points of these drugs. The high level of complexity involved in the development and manufacturing of these products throws up significant opportunities for contract research and manufacturing companies, especially the large ones with already established credentials. Global contract research and manufacturing companies have already benefited significantly from the outsourcing of biologic drugs; industry sources estimated the market at US$18bn in 2020 which is double when compared with four years ago. Industry players expect the opportunity to grow at 20% annually soon, versus mid-single digit growth for small molecule contract development and manufacturing.

Figure 5: Global R&D spending (US$bn)



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Breakup of global CDMO market (US$bn)



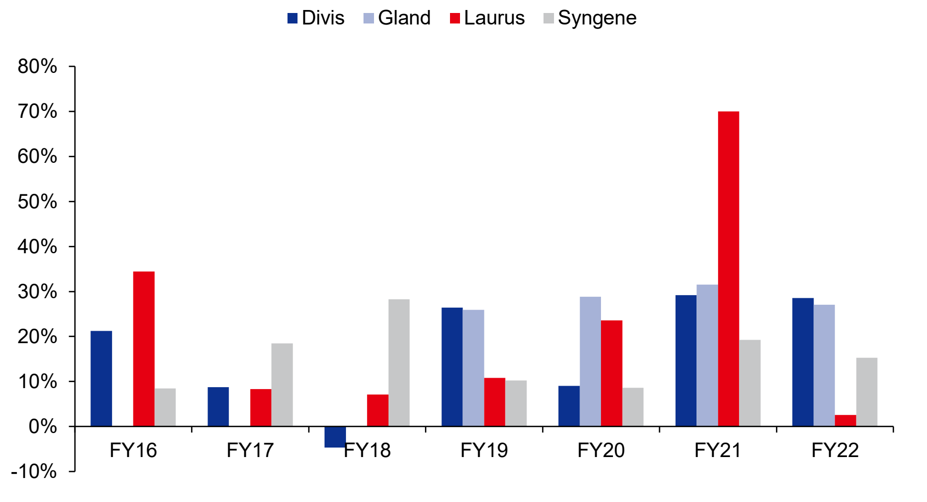
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Indian players have not significantly participated in the biologics outsourcing market till recently. However, large Indian players have, in the last one-to-two years, brought the opportunity under their lens. Gland Pharma, Laurus Labs and Syngene are key players that have active programmes going on in the biologicals area and have committed capex as well.

Benefitted from Covid-19; high base is a headwind in near term

Most Indian pharma contract manufacturers witnessed accelerated growth in FY21 and FY22, thanks mostly to heightened demand for some old APIs as well as sudden demand for manufacturing of new drugs on a large scale. The sharp upswing in global demand for pharma contract manufacturing in India is a very positive sign of capability and reliability of Indian players and shows the level of trust and relationships that they enjoy with global customers. But at the same time, the high base of FY21 and FY22 presents some growth challenges for the sector. Some additional demand that came in FY21 and FY22 may not repeat going ahead and could create a vacuum that can eat away the growth in the rest of the portfolio.

Figure 7: Covid-19 pandemic helped contract manufacturers' topline growth

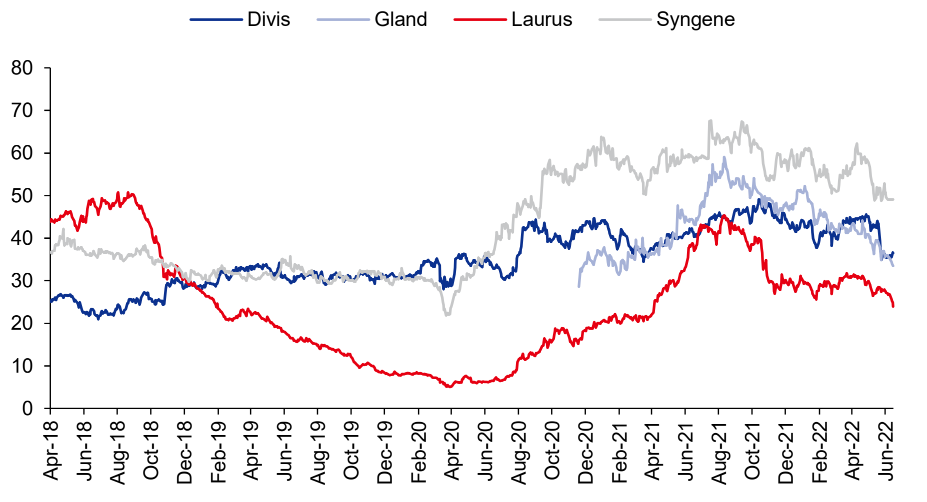


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Stretched valuations will cap near-term upside to stocks

The sudden and unexpected growth spurt also led to a sudden boost to valuations of large contract manufacturers - Divi's, Syngene and Gland Pharma - that used to trade at or below 30x one-year forward P/E, witnessing their P/E multiple expanding to as high as 60x one-year forward. The valuations have since corrected significantly, but we believe that there is some more room for a correction before the stocks in the sector look attractive.

Figure 8: One-year forward P/E multiple



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Key risks

Any sudden spurt in demand for select APIs in the wake of a new Covid-19 pandemic wave is key upside risk.

A sudden and large depreciation in the Indian rupee or INR could be another upside risk as that would add to the growth and also make Indian players more cost competitive.

Regulatory risks in terms of manufacturing quality issues raised by various foreign governmental agencies will be key downside risk.

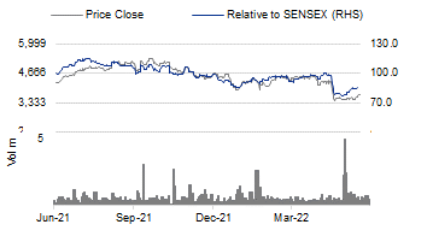
India

REDUCE *(Initiating coverage)*

Consensus ratings*:	Buy 14	Hold 4	Sell 5

Current price:	Rs3,681
Target price:	Rs3,438
Previous target:	NA
Up/downside:	-6.6%
EIP Research / Consensus:	-20.5%
Reuters:	
Bloomberg:	DIVI IN
Market cap:	US$12,473m
	Rs977,190m
Average daily turnover:	US$30.6m
	Rs2396.5m
Current shares o/s:	265.4m
Free float:	48.0%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	4.6	(17.4)	(13.4)
Relative (%)	8.9	(10.1)	(13.0)

Major shareholders	% held
Promoters	52.0
SBI MF	5.2
Axis MF	4.0

Divi's Laboratories

Still on Cloud Nine

- Supranormal growth of FY21 & FY22 has become a headwind for Divi's in FY23F and possibly in FY24F too. We build in a 7% fall in FY23F core EPS.
- Upside earnings surprises boosted the valuation; stock trades above the 'normal range' even after a recent correction; see further downside to multiples.
- Initiate coverage on Divi's with a Reduce rating and a target price of Rs3,438.

Torch bearer of India's CRAMS story

Divi's Laboratories (Divi's) is one of the oldest and the most successful Indian pharmaceutical contract research/manufacturing companies with an exceptional track record of technological prowess, operational efficiency, regulatory compliance, and customer service. The company has delivered superior growth and profitability over the last two decades - its revenues were up 4.8x and EBITDA up 5.6x in last 10 years while maintaining RoIC in the 30-50% range.

Two years of high growth is near-term headwind

Divi's benefitted from select large client orders, with a contract for Molnupiravir from Merck being the largest, helping it to grow its revenue by about 29% each in FY21 and FY22, versus the normalized average growth of around 10% per annum. Helped by topline growth and operating leverage, core EPS grew 57% in FY21 and 48% in FY22. This supranormal growth has become a headwind for Divi's in FY23F and possibly in FY24F as well. We build in a 7% decline in core EPS in FY23F.

Valuation shot up due to consecutive earnings surprises

The large upside earnings surprises that came back-to-back for several quarters have boosted the valuation of Divi's. Its P/E multiple shot up after Mar 2020, all the way up to 50x one-year forward, from 20x-35x levels where it traded between 2014 and 2020. Even after the recent correction, the stock trades at 35.5x, significantly above the 'normal range'. Our view is that the sharp softening of growth rate will weigh on the P/E multiple and bring it back to below 30x over the next four-to-eight quarters.

Initiate coverage with Reduce rating

Divi's stock trades at 35.3x FY23F core earnings, which is broadly in line with street estimates. We initiate coverage on Divi's with a Reduce rating and a target price of Rs3,438, which is 30x FY24F core earnings estimate plus cash per share. Another large wave of the Covid-19 pandemic that leads to significantly higher demand for Molnupiravir globally will be key upside risk. Another upside risk could be if an undisclosed molecule currently in development and for which Divi's is the innovator's manufacturing partner, gets commercialized, providing fresh sales large enough to compensate for the loss of Molnupiravir sales.

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Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	69,694	89,598	88,162	94,991	102,502
Operating EBITDA (Rsm)	28,599	38,819	37,069	39,936	43,117
Net Profit (Rsm)	19,843	29,605	27,469	29,459	31,684
Core EPS (Rs)	74.8	111.5	103.5	111.0	119.4
Core EPS Growth	44.2%	49.2%	(7.2%)	7.2%	7.6%
FD Core P/E (x)	49.23	33.00	35.56	33.16	30.83
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	33.41	24.42	25.05	22.81	20.67
P/FCFE (x)	33.88	31.41	16.04	18.95	17.39
Net Gearing	(23.2%)	(24.0%)	(34.9%)	(40.5%)	(45.4%)
P/BV (x)	10.51	8.33	7.14	6.07	5.22
ROE	23.9%	28.2%	21.6%	19.8%	18.2%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Torch bearer of India's contract research and manufacturing services or CRAMS story

Divi's is the torch bearer of pharmaceutical contract manufacturing business in India. It is the one of the oldest and the most successful Indian pharmaceutical contract research/manufacturing companies with an exceptional track record of technological prowess, operational efficiency, regulatory compliance, and customer service. Consequently, the company has delivered superior growth and profitability over the last two decades. Divi's revenues were up 4.8x and EBITDA up 5.6x in last 10 years and the company has maintained RoIC in the 30-50% range.

Divi's has established itself as a partner of choice among its customers, particularly so among the large global pharmaceutical companies such as Merck, GSK, and Pfizer. The key moat of the company has been its chemistry skills that improve product yields and bring down per-unit production cost. Add to that the process skills that ensure the best operational efficiency and service levels, and Divi's becomes the invincible manufacturing partner.

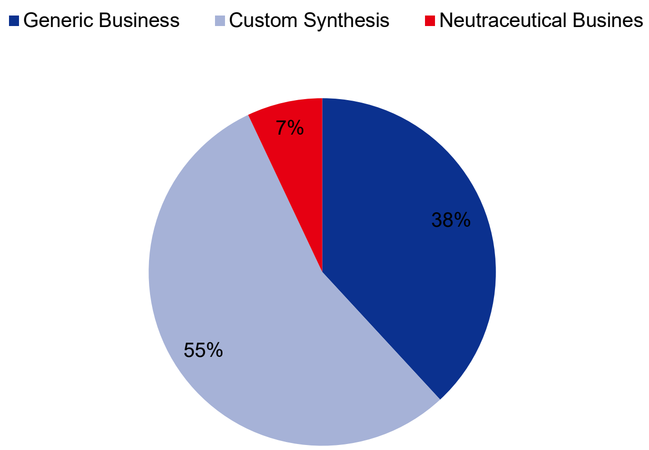
Even in the generic active pharmaceutical ingredient or API business, Divi's strives to be the lowest cost manufacturer globally for each of its products. Being selective and being the lowest cost manufacturer helps Divi's garner a large market share and reap the benefits of economies of scale. Divi's manufactures only about 30 APIs among which it is the largest manufacturer globally of more than 10 APIs. In its top products such as Naproxen, Dextromethorphan and Gabapentin, Divi's commands more than 50% market share globally.

Divis has also forayed into a few nutraceutical segments – carotenoids including Beta Carotene, Astaxanthin, Lycopene, Canthaxahnthin, Lutein and certain vitamins.

Right mix of contract manufacturing and generic API

Divi's tries to maintain a balanced business mix of contract manufacturing for innovator companies and generic API manufacturing. Contract manufacturing business, by nature, is lumpy and less predictable, given the unpredictability of the progress in the development and commercial success of the underlying molecules. On the other hand, generic API and nutraceuticals businesses are more predictable as the end-markets are broadly stable.

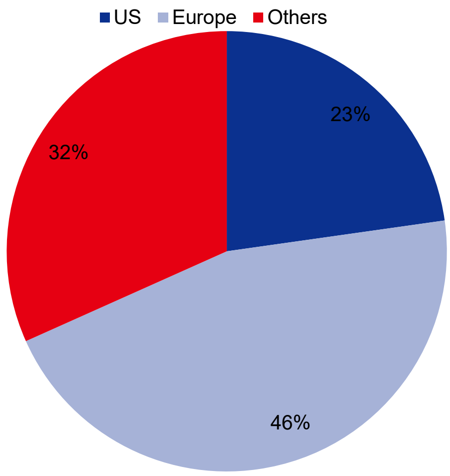
Figure 9: FY21 revenue contribution from various business segments



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Geographically, Divi's business is largely skewed towards the developed markets – US and Europe. These two geographies account for around 70% revenue of Divi's.

Figure 10: FY21 revenue contribution from various geographies



SOURCES: INCRED RESEARCH, COMPANY REPORTS

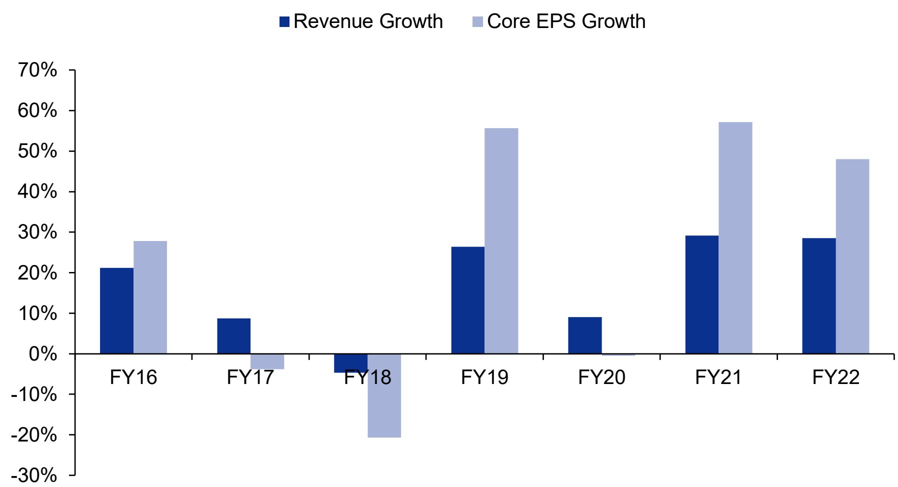
Stellar regulatory track record

Divis stands out among its peers in India as well as overseas with its stellar regulatory track record. In its history, the company has received only one warning letter (2017) from the US Food and Drug Administration or US FDA; it was resolved in a record time of around six months. No other company in India has resolved the problems listed in a warning letter in that small timeframe.

Two years of high growth is near-term headwind

Divi's benefitted from select large client orders in FY21 and FY22, helping it grow its revenue by about 29% each in FY21 and FY22, versus the normalized average growth of around 10% per annum. Helped by topline growth and operating leverage, core EPS grew 57% in FY21 and 48% in FY22. This supranormal growth has become a headwind for Divi's in FY23F and possibly in FY24F as well.

Figure 11: High growth back-to-back in FY21 & FY22



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Among the products that helped the supranormal growth in FY22 was a contract for Molnupiravir from Merck. We believe that more than 15% of Divi's' FY22 topline and more than 25% of its profits came from Molnupiravir API supply to Merck. This will likely come off significantly in FY23F, unless there is a further Covid-19 scare and governments/private institutions ramp up procurement. This ramp-down in Mulnupiravir sales will eat into the growth of the rest of its portfolio, bringing down overall growth rate for FY23F and possibly FY24F as well.

Valuation shot up due to consecutive earnings surprises

The large upside earnings surprises that came back-to-back for several quarters has boosted the valuation of Divi's along with some of its other contract manufacturing peers. Divi's' P/E multiple shot up after Mar 2020, all the way up to 50x one-year forward, from 20x-35x levels where it traded between 2014 and 2020. Even after the recent correction, the stock trades at 35.5x, significantly above the 'normal range'. Our view is that the sharp softening of growth rate will weigh on the P/E multiple and bring it back to below 30x level over the next four-to-eight quarters.

Figure 12: P/E band of Divi's Lab

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Initiate coverage with a Reduce rating

Divi's' stock trades at 35.3x FY23F core earnings, which is broadly in line with street estimate. We initiate coverage on Divi's with a Reduce rating and a target price of Rs3,438, which is 30x FY24F core earnings estimate plus cash per share.

Figure 13: Core valuation table

	FY20	FY21	FY22	FY23F	FY24F
Core EPS (Rs)	46.5	73.0	108.1	101.1	108.6
Core EPS growth	-0.5%	57.1%	48.1%	-6.5%	7.4%
Cash per share (Rs)	41.2	81.2	106.2	180.2	246.2
Current Core P/E (Rs)	76.8	48.9	33.0	35.3	32.9
Core ROIC	23.5%	41.7%	50.0%	37.6%	40.4%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Peer group valuation

Figure 14: Peer group valuation

Bloomberg Ticker	Company	Rec	MCap (US$ bn)	Price	Target Price	Up/ down (%)	CORE EPS (x) FY22	CORE EPS (x) FY23F	CORE EPS (x) FY24F	PER (x) FY22	PER (x) FY23F	PER (x) FY24F	P/Bk (x) FY22	P/Bk (x) FY23F	EV/EBITDA (x) FY22	EV/EBITDA (x) FY23F	Yield (%) FY23F	ROAE (%) FY23F	ROCE (%) FY23F
Divi IN	Divi's Laboratories	REDUCE	12.5	3681	3438	-6.6	111.5	103.5	111.0	33.0	35.6	33.2	8.3	7.1	24.4	25.0	0.0	21.6	26.4
Gland IN	Gland Pharma Ltd	HOLD	5.6	2644	2699	2.1	73.7	83.0	95.1	35.8	31.8	27.8	6.1	5.1	26.6	21.8	0.0	17.4	21.5
Laurus IN	Laurus Labs	ADD	3.2	467	626	34.1	15.5	21.9	26.6	30.1	21.3	17.5	7.5	5.6	18.8	14.0	0.4	30.2	28.1
SYNG IN	Syngene International Ltd	-		568	425	-25.2	9.9	14.0	18.4	54.1	50.9	43.8	6.9	6.1	30.0	26.0	0.0	12.7	11.4
Simple Average							**52.6**	**55.6**	**62.8**	**38.3**	**34.9**	**30.6**	**7.2**	**6.0**	**25.0**	**21.7**	**0.1**	**20.5**	**21.8**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Key risks

Another large wave of the Covid-19 pandemic that leads to significantly higher demand for Molnupiravir globally will be key upside risk. Another upside risk could be if an undisclosed molecule currently in development and for which Divi's is the innovator's manufacturing partner, gets commercialized, providing fresh sales large enough to compensate for the loss of Molnupiravir sales.

Erosion in large contract manufacturing product revenue, either due to loss of innovator's patent exclusivity or due to shift of manufacturing, will be key downside risk. Like all manufacturers selling their products in the US pharmaceutical market, Divi's also faces the risk of regulatory action around manufacturing quality issues.

SWOT analysis

Figure 15: SWOT analysis

Strengths	Weaknesses
Strong customer relationship and customer trust.	The large scale at which finding business opportunities to sustain growth is difficult.
Opportunities	**Threats**
New drugs being developed by the innovator pharma companies and the drugs that are newly going off patent protection.	Competition from other Indian players that have become large and have a credible track record to compete with Divi's.

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Management profile

Figure 16: Management profile

Name	Designation	Profile
Dr. Murali K. Divi	Managing Director	Dr. M.K.Divi is the founder and managing director of Divi's Laboratories Ltd. Dr. Divi oversees major technical and financial operations of the company. Prior to starting Divi's, Dr. Divi had extensive experience of over 15 years in the pharma industry and has led various research and manufacturing teams globally. He holds a Ph.D. degree in Pharmaceutical Sciences.
Mr. N.V. Ramana	Executive Director	Mr. Nimmagadda is the executive director of Divi's Laboratories Ltd and has been with the company for the past 25 years. In his role, he oversees all functions of strategic planning, sales and marketing, custom manufacturing, contract research and nutraceutical ingredient development. Prior to joining Divi's, Mr. Nimmagadda had over 10 years of experience in the pharmaceutical industry.
Dr. Kiran S. Divi	Whole-Time Director & Chief Executive Officer	Dr. Kiran Divi is the director on board & chief executive officer of Divi's Laboratories Ltd and has been with the company for the past 20 years. He oversees all the corporate functions and operations at its manufacturing facilities. Prior to joining Divi's, Dr. Divi has gained extensive knowledge and understanding of the pharmaceutical industry with an extra focus on the US generic market.
Mr. Madhusudana Rao Divi	Whole-Time Director (Projects)	Mr. Rao Divi is the director of projects at Divi's Laboratories Ltd and has been with the company for the past 20 years. He administers all aspects of manufacturing including production, engineering, sustainability, and environmental management along with construction of new projects.
Ms. Nilima Prasad Divi	Whole-Time Director (Commercial)	Ms. Nilima is the director on board – commercial at Divi's Laboratories Ltd and has been with the company for the past five years. She administers all aspects of material sourcing and procurement, corporate finance and investor relations.

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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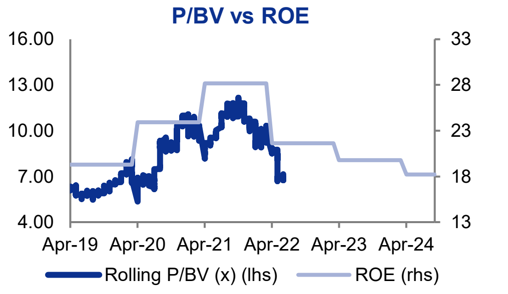

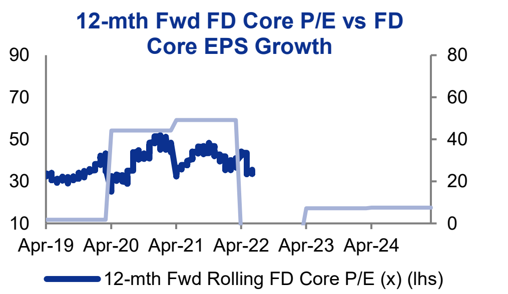

Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	**69,694**	**89,598**	**88,162**	**94,991**	**102,502**
Gross Profit	**46,453**	**59,927**	**57,123**	**61,554**	**66,421**
Operating EBITDA	**28,599**	**38,819**	**37,069**	**39,936**	**43,117**
Depreciation And Amortisation	(2,556)	(3,115)	(3,520)	(3,900)	(4,300)
Operating EBIT	**26,044**	**35,704**	**33,549**	**36,036**	**38,817**
Financial Income/(Expense)	(9)	(8)	(12)	(12)	(12)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	626	1,139	800	800	800
Profit Before Tax (pre-EI)	**26,660**	**36,835**	**34,337**	**36,824**	**39,605**
Exceptional Items					
Pre-tax Profit	**26,660**	**36,835**	**34,337**	**36,824**	**39,605**
Taxation	(6,818)	(7,231)	(6,867)	(7,365)	(7,921)
Exceptional Income - post-tax					
Profit After Tax	**19,843**	**29,605**	**27,469**	**29,459**	**31,684**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**19,843**	**29,605**	**27,469**	**29,459**	**31,684**
Recurring Net Profit	19,843	29,605	27,469	29,459	31,684
Fully Diluted Recurring Net Profit	**19,843**	**29,605**	**27,469**	**29,459**	**31,684**

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	28,599	38,819	37,069	39,936	43,117
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,641)	13,705	3,996	(3,049)	(3,361)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(6,489)	(33,406)	(6,867)	(7,365)	(7,921)
Net Interest (Paid)/Received	(9)	(8)	(12)	(12)	(12)
Tax Paid	(6,443)	(34,537)	(788)	(788)	(788)
Cashflow From Operations	**19,469**	**19,118**	**34,198**	**29,522**	**31,835**
Capex	(9,102)	(7,130)	(7,500)	(7,500)	(7,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1,000)				
Cash Flow From Investing	**9,367**	**11,988**	**26,698**	**22,022**	**24,335**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid		(5,309)	(7,962)	(5,308)	(5,308)
Preferred Dividends					
Other Financing Cashflow	1,252	(50)	888	812	814
Cash Flow From Financing	**1,252**	**(5,360)**	**(7,074)**	**(4,496)**	**(4,494)**
Total Cash Generated	10,620	6,629	19,624	17,526	19,841
Free Cashflow To Equity	**28,837**	**31,106**	**60,895**	**51,543**	**56,170**
Free Cashflow To Firm	**28,845**	**31,114**	**60,907**	**51,555**	**56,182**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	21,560	28,189	47,812	65,338	85,180
Total Debtors	16,765	24,239	21,159	22,798	24,600
Inventories	21,452	28,286	26,449	28,497	30,751
Total Other Current Assets	1,969	2,801	3,526	3,800	4,100
Total Current Assets	**61,747**	**83,515**	**98,947**	**120,433**	**144,631**
Fixed Assets	44,053	47,875	51,855	55,455	58,655
Total Investments		720	720	720	720
Intangible Assets	92	75	75	75	75
Total Other Non-Current Assets	1,849	1,562	1,562	1,562	1,562
Total Non-current Assets	**45,994**	**50,232**	**54,212**	**57,812**	**61,012**
Short-term Debt	11	8	8	8	8
Current Portion of Long-Term Debt					
Total Creditors	7,632	7,957	8,175	8,809	9,502
Other Current Liabilities	3,481	3,990	3,577	3,854	4,157
Total Current Liabilities	**11,125**	**11,956**	**11,760**	**12,671**	**13,667**
Total Long-term Debt		29	129	153	179
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,670	4,481	4,481	4,481	4,481
Total Non-current Liabilities	**3,670**	**4,510**	**4,610**	**4,634**	**4,660**
Total Provisions					
Total Liabilities	**14,795**	**16,465**	**16,369**	**17,305**	**18,327**
Shareholders Equity	92,946	117,282	136,789	160,940	187,316
Minority Interests					
Total Equity	**92,946**	**117,282**	**136,789**	**160,940**	**187,316**

Key Ratios

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	29.2%	28.6%	(1.6%)	7.7%	7.9%
Operating EBITDA Growth	57.0%	35.7%	(4.5%)	7.7%	8.0%
Operating EBITDA Margin	41.0%	43.3%	42.0%	42.0%	42.1%
Net Cash Per Share (Rs)	81.19	106.07	179.64	245.58	320.24
BVPS (Rs)	350.21	441.91	515.41	606.41	705.79
Gross Interest Cover	2,993.51	4,463.04	2,795.74	3,002.96	3,234.72
Effective Tax Rate	25.6%	19.6%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	80.91	83.52	93.98	84.45	84.39
Inventory Days	314.82	305.93	321.82	299.90	299.68
Accounts Payables Days	106.32	95.88	94.85	92.70	92.62
ROIC (%)	26.0%	28.8%	27.0%	27.1%	27.4%
ROCE (%)	31.3%	34.0%	26.4%	24.2%	22.3%
Return On Average Assets	20.6%	24.5%	19.2%	17.8%	16.5%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

HOLD *(Initiating coverage)*

Consensus ratings*:	Buy 15 Hold 1 Sell 3
Current price:	Rs2,644
Target price:	Rs2,699
Previous target:	NA
Up/downside:	2.1%
EIP Research / Consensus:	-24.6%
Reuters:	
Bloomberg:	GLAND IN
Market cap:	US$5,556m
	Rs435,293m
Average daily turnover:	US$13.2m
	Rs1033.5m
Current shares o/s:	164.3m
Free float:	42.0%

Source: Bloomberg

Source: Bloomberg

Price performance	*1M*	*3M*	*12M*
Absolute (%)	(3.6)	(17.4)	(17.1)
Relative (%)	0.3	(10.1)	(16.8)

Major shareholders	% held
Promoters	58.0
Mirae	1.8
Capital Group	1.8

Gland Pharma Ltd

Growth expectations reset

- A high base, shortage of devices, and general cost inflation are likely to cause a softening of growth rate and margins for Gland Pharma in FY23F.
- P/E multiple, after shooting up in FY22, has corrected and there could be some more decline, in our view, before the stock becomes attractive.
- Initiate coverage on the stock with a Hold rating and a target price of Rs2,699.

The injectables specialist

Gland Pharma (Gland) is a pure-play generic injectable drug formulations manufacturer, primarily focused on the US pharmaceutical market. Gland has successfully tapped into the chronic shortage of compliant manufacturing facilities that can supply injectable formulations for the US market. The company has 252 injectables abbreviated new drug applications or ANDAs approved in the US, of which 152 are self-owned and 100 are partner-owned. Gland and its partners together continue to file more than 20 ANDAs per year.

Some softening of growth and margins

Gland's topline is up 2.7x in last four years and EBITDA is also up 2.8x. The company has sustained its EBITDA margin in the 34-38% range and has maintained RoIC above 40%. However, we believe the high base, shortage of devices, and general cost inflation are likely to cause softening of growth rate and margins from here on. We project mid-high teen growth and 40-50bp EBITDA margin erosion in FY23F and FY24F.

Valuation has come off but more decline likely

Gland's valuation shot up in FY21 and FY22, along with its contract manufacturing company peers such as Divi's Laboratories and Syngene. The high growth in the sector and for Gland in particular, we believe, contributed to this. Gland's one-year forward P/E multiple went up from below 30x in Nov 2020 to above 60x in Jul 2021. Since then, there has been a significant correction in the multiple and the stock currently trades at 32.1x FY23F core earnings estimate. While we are close to what we believe is a reasonable valuation, there could be some more correction in the P/E multiple before the stock becomes attractive.

Initiate coverage with Hold rating

Gland stock trades at 31.7x FY23F core earnings, which is about 10% below street consensus estimate. We initiate coverage on Gland with a Hold rating and a target price of Rs2,699, which is 28x FY24F core earnings plus cash per share. Key risks: US FDA manufacturing quality problems remain key downside risk in the injectables space. Worsening price scenario for any of its key products in the US market due to the entry of new competitors is also a plausible downside risk. Large upside potential in any product in the US market due to the exit of a competitor will be key upside risk.

Financial Summary	**Mar-21A**	**Mar-22A**	**Mar-23F**	**Mar-24F**	**Mar-25F**
Revenue (Rsm)	34,629	44,007	52,992	61,038	70,115
Operating EBITDA (Rsm)	13,022	15,102	18,023	20,787	23,897
Net Profit (Rsm)	9,970	12,117	13,641	15,620	17,896
Core EPS (Rs)	60.7	73.7	83.0	95.1	108.9
Core EPS Growth	29.0%	21.5%	12.6%	14.5%	14.6%
FD Core P/E (x)	43.57	35.85	31.84	27.81	24.27
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	31.05	26.61	21.84	18.50	15.66
P/FCFE (x)	44.25	40.98	24.19	22.00	18.83
Net Gearing	(50.9%)	(45.3%)	(47.8%)	(49.3%)	(50.6%)
P/BV (x)	7.36	6.07	5.10	4.31	3.66
ROE	20.9%	18.6%	17.4%	16.8%	16.3%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Analyst(s)

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The injectables specialist

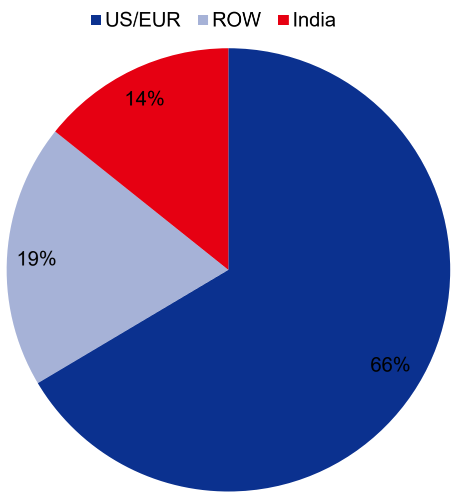
Gland Pharma (Gland) is a pure-play generic injectable drug formulations manufacturer, primarily focused on the US pharmaceutical market. Gland does not sell directly to end-customers but supplies to its sales and marketing partner companies who in turn sell the products to end-customers - typically healthcare facilities. The company has two business models:

A. Gland owns the product and has approval for its own ANDA (abbreviated new drug application) in the US market and partners with another pharma company for sales and marketing (Gland-owned products).
B. Partner pharma companies file ANDA from Gland's manufacturing facilities and get US FDA approval (partner-owned products).

Gland's revenue comes from a transfer price charged upfront to partner companies and also from a share of the final profit made on the sale of products.

Nearly two-thirds of Gland's revenue comes from the US pharmaceutical end-market. Gland's key strength has been the expertise and economies of scale that it achieved over the years in US FDA-compliant manufacturing of injectable formulations. In the last four-to-five years, Gland has also started actively diversifying into other geographies. Globally, Gland has more than 1,500 products registered across 60 countries.

Figure 17: Gland Pharma - FY22 revenue contribution from various geographies



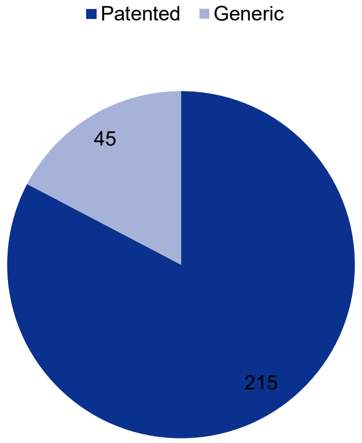
SOURCES: COMPANY REPORTS, INCRED RESEARCH

Global shortage of US FDA-approved injectables capacity

The US injectable pharmaceutical market is a large niche opportunity, given the stringent manufacturing quality requirements enforced by the US Food and Drug Administration or US FDA. The large and dedicated capex requirement and the difficulty in mastering the US FDA GMP (Good Manufacturing Practices) have limited the number of players in the injectables market and ensured that it remained a niche area with higher profitability and return ratios compared to the more commoditized oral dosage forms segment.

Based on inputs from industry sources, we estimate the US injectable pharmaceutical formulations market at about US$260bn, within which about US$ 45bn comprises generic products and the remaining is contributed by patented products. Gland's target end-market in the US is primarily the generic injectables market worth US$45bn.

Figure 18: US injectables market ($bn)



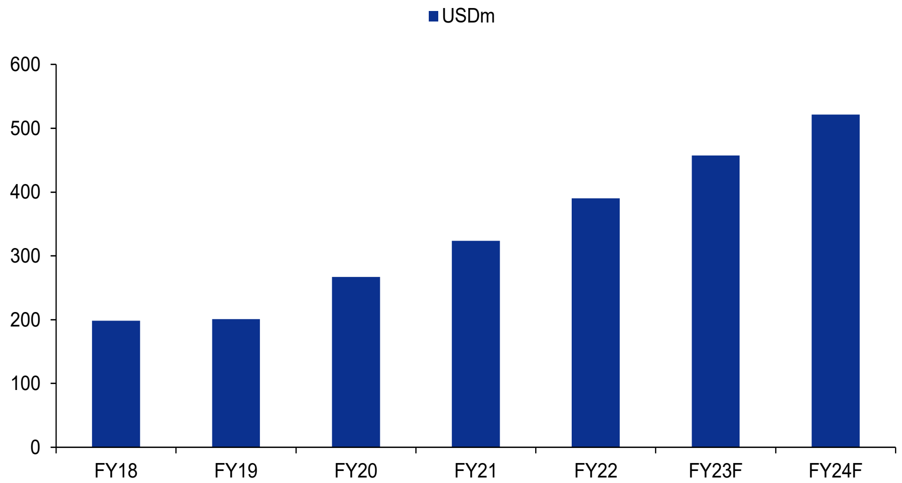
SOURCES: INCRED RESEARCH, COMPANY REPORTS

The large and dedicated capex requirement and the difficulty in mastering the US FDA GMP have also led to chronic shortage of compliant manufacturing facilities that can sell injectable formulations in the US market. Among the list of drug products under shortage, published periodically by the US FDA, more than two-thirds are injectable formulations, as per our analysis. This is despite the fact that approved oral/other formulations outnumber approved injectable formulations by a wide margin. This chronic shortage of injectables capacity is a great opportunity that Gland Pharma has successfully tapped into. We do not see this chronic shortage getting rectified soon and thus see continued growth potential for Gland's US business.

Continuing ramp-up of the US business

Gland has 252 injectables ANDAs approved in the US, of which 152 are self-owned and 100 are partner-owned. Gland and its partners together continue to file more than 20 ANDAs per year. Gland's largest products in the US market are Enoxaparin and Mycafungin. The company has almost doubled its US business in US$ terms over the last four years; we expect softening of growth in this business to mid-high teens from here on.

Figure 19: US + Europe revenue of Gland Pharma (USDm)



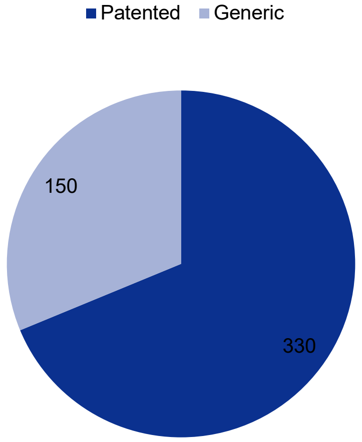
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Gland is also pursuing more complex generic injectable products that are difficult to develop and manufacture but can provide better pricing and more sustainable revenue due to lower competition. The company has identified close to 20 such products and is close to filing at least four of them. Gland is also exploring the possibility of partnering with generic companies for development and commercialization of biosimilar drugs. These products can add to sustainability of Gland's growth prospects in the US market.

A large opportunity, even beyond the US market

Injectable pharmaceutical formulations are a large opportunity, even beyond the US market, although more competitive due to the relatively less stringent manufacturing quality norms elsewhere. Industry sources estimate the size of global injectable formulations market at about US$480bn, within which generic injectable formulations account for about US$150bn.

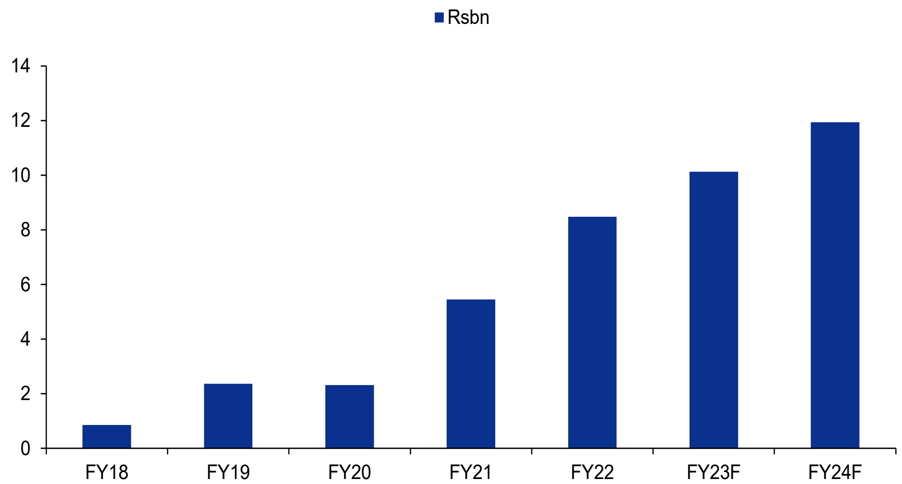
Figure 20: Global injectables market (USDbn)



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Over the last five years, as the high base of the US business started becoming a headwind to growth, Gland started pursuing the non-US (RoW) markets more vigorously. Simultaneously, it has also tapped the Indian market, in some cases directly approaching large buyers such as hospital chains. Gland's RoW revenues are up 10x in last four years and we continue to see sustainable high-teen growth in that business.

Figure 21: RoW revenue of Gland Pharma (Rsbn)



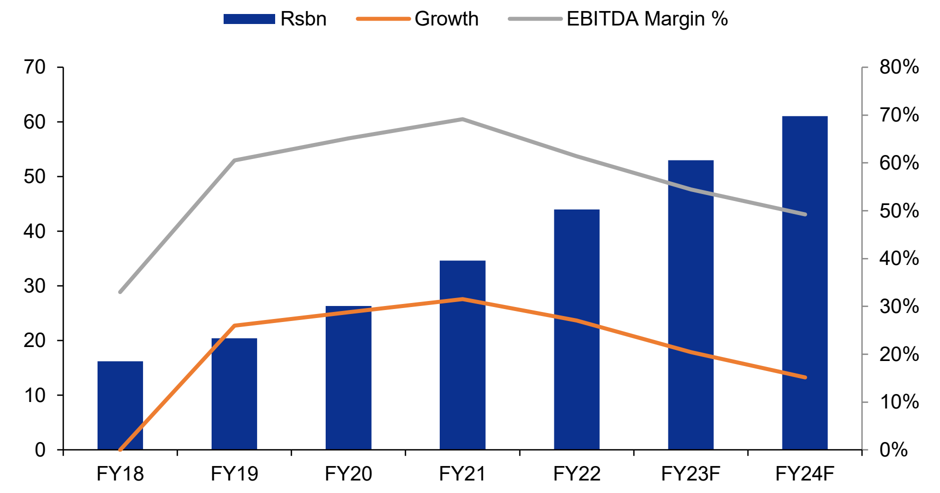
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Parentage of Fosun Pharma, a large pharmaceutical player in the East Asian market, will be helpful to Gland in its pursuit of Asian markets. The additional facility coming up at Pashamylaram will also support its growth in RoW markets.

Some softening of growth and margins

Gland's performance on growth and profitability fronts has been solid over the last four-to-five years. Overall revenue was up 2.7x in last four years and EBITDA rose 2.8x. The company has sustained its EBITDA margin in the 34-38% range and has maintained RoIC above 40%. However, the high base, shortage of devices used in injectable formulations, and general cost inflation are likely to lead to softening of growth rate and margins from here on. We project mid-high teen growth and 40-50bp EBITDA margin erosion in FY23F and FY24F.

Figure 22: Total revenue and EBITDA margin of Gland Pharma

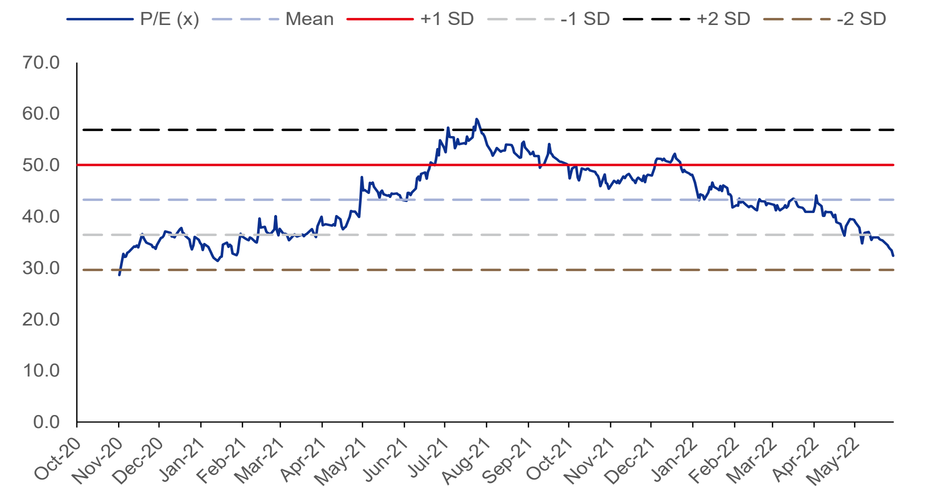


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Valuation has come off but more softening likely

Gland's valuation shot up in FY20 and FY21, along with its contract manufacturing company peers such as Divi's and Syngene. The high growth in the sector and Gland in particular, we believe, contributed to this. Gland's one-year forward P/E multiple went up from below 30x in Nov 2020 to above 60x in Jul 2021. Since then, there has been a significant correction in the P/E multiple and the stock currently trades at 32.1x FY23F core earnings. While we are close to what we believe is a reasonable valuation, there could be some more correction in the P/E multiple before the stock becomes attractive.

Figure 23: P/E band of Gland Pharma



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Initiating coverage with Hold rating

Gland stock trades at 31.7x FY23F core earnings, which is about 10% below street consensus estimate. We initiate coverage on Gland with a Hold rating and a target price of Rs2,699, which is 28x FY24F core earnings plus cash per share.

Figure 24: Core valuation table

	FY20	FY21	FY22	FY23F	FY24F
Core EPS (Rs)	42.6	54.4	63.1	75.9	87.6
Core EPS growth	59.1%	27.8%	16.0%	20.2%	15.4%
Cash per share (Rs)	84.9	182.5	196.4	246.2	299.6
Current Core P/E (Rs)	57.1	44.7	38.6	32.1	27.8
Core ROIC	40.1%	51.8%	48.2%	43.1%	43.8%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Key risks

US FDA manufacturing quality problems remain a key risk in the injectables space. With about two-thirds of its revenue coming from the US end-market, any disruption in product exports to the US will have a significant downside impact on Gland's profitability.

Worsening price scenario for any of its key products in the US market due to the entry of new competitors is a plausible downside risk that can significantly impact Gland's growth and profitability.

Large upside in any of its products in the US market due to the exit of a competitor or due to sudden demand spike in a pandemic-like situation will be key upside risk.

Peer group valuation

Figure 25: Peer group valuation

Bloomberg Ticker	Company	Rec	MCap (US$ bn)	Price	Target Price	Up/ down (%)	CORE EPS (x)			PER (x)			P/Bk (x)		EV/EBITDA (x)		Yield (%)	ROAE (%)	ROCE (%)
							FY22	FY23F	FY24F	FY22	FY23F	FY24F	FY22	FY23F	FY22	FY23F	FY23F	FY23F	FY23F
Gland IN	Gland Pharma Ltd	HOLD	5.6	2644	2699	2.1	73.7	83.0	95.1	35.8	31.8	27.8	6.1	5.1	26.6	21.8	0.0	17.4	21.5
Divi IN	Divi's Laboratories	REDUCE	12.5	3681	3438	-6.6	111.5	103.5	111.0	33.0	35.6	33.2	8.3	7.1	24.4	25.0	0.0	21.6	26.4
Laurus IN	Laurus Labs	ADD	3.2	467	626	34.1	15.5	21.9	26.6	30.1	21.3	17.5	7.5	5.6	18.8	14.0	0.4	30.2	28.1
SYNG IN	Syngene International Ltd	-		568	425	-25.2	9.9	14.0	18.4	54.1	50.9	43.8	6.9	6.1	30.0	26.0	0.0	12.7	11.4
Simple Average							**52.6**	**55.6**	**62.8**	**38.3**	**34.9**	**30.6**	**7.2**	**6.0**	**25.0**	**21.7**	**0.1**	**20.5**	**21.8**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

SWOT analysis

Figure 26: SWOT analysis

Strengths	**Weaknesses**
Years of experience in US FDA- compliant manufacturing of injectable formulations and a large, approved product basket in the US.	Lack of front-end sales and marketing infrastructure in key markets.
Opportunities	**Threats**
Large untapped RoW market and product opportunities in complex injectables and biologics.	Rising competition from the US market-focused injectable formulations capacities coming up across the globe.

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Key management profile

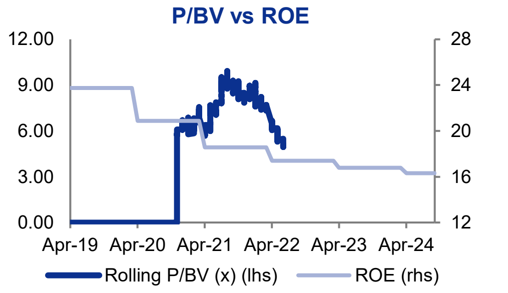
Figure 27: Key management profile of Gland Pharma

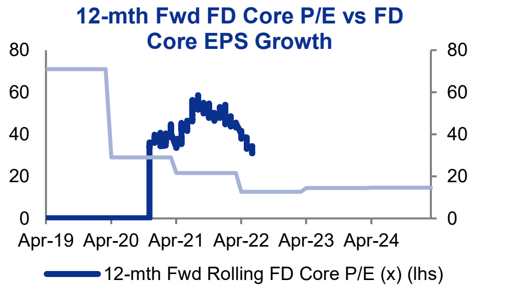
Name	Designation	Profile
MR. SRINIVAS SADU	Managing Director & Chief Executive Officer	Mr. Sadu, managing director and CEO since 2019, joined Gland Pharma in 2000 and rose from the ranks to become chief operating officer in 2011. He holds a master's degree in Industrial Pharmacy and a MBA degree. He has over 23 years of experience in business development, manufacturing operations, supply chain management and strategic planning.
MR. K.V.G.K. RAJU	Chief Technical Officer	Mr. Raju's association with the company goes back since its inception and he is closely related to the company. Mr. Raju has 38 years' experience in quality assurance, quality control and regulatory affairs. He holds a Master of Science degree in Organic Chemistry and a Post Graduate Diploma in Industrial Microbiology.
MR. RAVI SHEKHAR MITRA	Chief Financial Officer	Mr. Mitra joined Gland Pharma as CFO in 2019. He is a qualified chartered accountant and company secretary. He has over 20 years' experience in leading financial management, FP&A, strategic planning, and investor relations in pharmaceutical and other industries.

SOURCES: INCRED RESEARCH, COMPANY REPORTS

InCred Equities

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	**34,629**	**44,007**	**52,992**	**61,038**	**70,115**
Gross Profit	**19,710**	**22,915**	**27,282**	**31,435**	**36,109**
Operating EBITDA	**13,022**	**15,102**	**18,023**	**20,787**	**23,897**
Depreciation And Amortisation	(988)	(1,103)	(1,175)	(1,300)	(1,375)
Operating EBIT	**12,034**	**13,999**	**16,848**	**19,487**	**22,522**
Financial Income/(Expense)	(34)	(52)	(60)	(60)	(60)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,348	2,239	1,400	1,400	1,400
Profit Before Tax (pre-EI)	**13,348**	**16,186**	**18,188**	**20,827**	**23,862**
Exceptional Items					
Pre-tax Profit	**13,348**	**16,186**	**18,188**	**20,827**	**23,862**
Taxation	(3,378)	(4,069)	(4,547)	(5,207)	(5,965)
Exceptional Income - post-tax					
Profit After Tax	**9,970**	**12,117**	**13,641**	**15,620**	**17,896**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**9,970**	**12,117**	**13,641**	**15,620**	**17,896**
Recurring Net Profit	9,970	12,117	13,641	15,620	17,896
Fully Diluted Recurring Net Profit	**9,970**	**12,117**	**13,641**	**15,620**	**17,896**

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	13,022	15,102	18,023	20,787	23,897
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(4,358)	3,931	(2,499)	(3,457)	(3,897)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(2,615)	(11,125)	(4,547)	(5,207)	(5,965)
Net Interest (Paid)/Received	(34)	(52)	(60)	(60)	(60)
Tax Paid	(3,929)	(13,312)	(1,340)	(1,340)	(1,340)
Cashflow From Operations	**6,049**	**7,908**	**10,977**	**12,124**	**14,034**
Capex	(2,283)	(5,217)	(4,000)	(4,500)	(5,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	**3,766**	**2,690**	**6,977**	**7,624**	**9,034**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	12,418	386			
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	622	(646)	1,378	1,356	1,358
Cash Flow From Financing	**13,040**	**(260)**	**1,378**	**1,356**	**1,358**
Total Cash Generated	16,806	2,430	8,355	8,979	10,392
Free Cashflow To Equity	**9,815**	**10,598**	**17,955**	**19,747**	**23,068**
Free Cashflow To Firm	**9,849**	**10,651**	**18,015**	**19,807**	**23,128**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	30,058	32,488	40,843	49,822	60,214
Total Debtors	6,710	11,988	10,598	12,208	14,023
Inventories	12,752	11,857	12,718	14,649	16,828
Total Other Current Assets	1,718	2,188	9,539	10,987	12,621
Total Current Assets	**51,236**	**58,521**	**73,698**	**87,666**	**103,686**
Fixed Assets	12,913	16,804	19,629	22,829	26,454
Total Investments					
Intangible Assets	10	125	125	125	125
Total Other Non-Current Assets	802	2,886	2,886	2,886	2,886
Total Non-current Assets	**13,724**	**19,815**	**22,640**	**25,840**	**29,465**
Short-term Debt		3	3	3	3
Current Portion of Long-Term Debt					
Total Creditors	4,007	4,629	5,245	6,038	6,933
Other Current Liabilities	1,118	1,189	4,896	5,635	6,471
Total Current Liabilities	**5,125**	**5,820**	**10,144**	**11,675**	**13,406**
Total Long-term Debt	39	45	83	98	116
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	764	895	895	895	895
Total Non-current Liabilities	**803**	**940**	**978**	**993**	**1,011**
Total Provisions					
Total Liabilities	**5,928**	**6,760**	**11,121**	**12,669**	**14,417**
Shareholders Equity	59,032	71,576	85,218	100,838	118,734
Minority Interests					
Total Equity	**59,032**	**71,576**	**85,218**	**100,838**	**118,734**

Key Ratios

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	31.5%	27.1%	20.4%	15.2%	14.9%
Operating EBITDA Growth	36.3%	16.0%	19.3%	15.3%	15.0%
Operating EBITDA Margin	37.6%	34.3%	34.0%	34.1%	34.1%
Net Cash Per Share (Rs)	182.70	197.45	248.07	302.63	365.77
BVPS (Rs)	359.30	435.64	518.67	613.74	722.67
Gross Interest Cover	353.95	267.05	280.81	324.79	375.36
Effective Tax Rate	25.3%	25.1%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	67.08	77.54	77.79	68.19	68.27
Inventory Days	248.50	212.92	174.44	168.71	168.93
Accounts Payables Days	79.48	74.72	70.09	69.56	69.61
ROIC (%)	30.2%	26.2%	27.8%	28.0%	28.3%
ROCE (%)	25.2%	21.4%	21.5%	20.9%	20.5%
Return On Average Assets	18.9%	17.0%	15.7%	14.9%	14.5%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

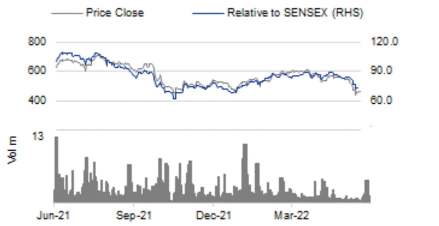
India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 11	Hold 0	Sell 3

Current price:	Rs467
Target price:	Rs626
Previous target:	NA
Up/downside:	34.0%
EIP Research / Consensus:	-2.2%
Reuters:	
Bloomberg:	LAURUS IN
Market cap:	US$3,201m
	Rs250,759m
Average daily turnover:	US$10.6m
	Rs833.5m
Current shares o/s:	537.4m
Free float:	72.7%

**Source: Bloomberg*



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(15.6)	(20.9)	(28.3)
Relative (%)	(12.2)	(13.9)	(28.0)

Major shareholders	% held
Promoters	27.3
Capital group	8.6
New World Fund	4.8

Laurus Labs

Growth at full throttle likely in FY23F

- Growth in anti-retrovirals and other APIs can continue, although at a slower pace. DPP-IV inhibitors and sartans will be key growth drivers in API segment.
- We believe that formulations and custom synthesis businesses will be key growth drivers in achieving the 50%+ FY23F growth guidance.
- We see an upside even if the guidance is missed; initiate coverage on the stock with an Add rating and a target price of Rs626 or 24x FY24F core EPS.

Growing out of the ARV foundation

From a modest start, Laurus Labs (Laurus) grew into one of the largest manufacturers of anti-retroviral (ARV) active pharmaceutical ingredients or APIs globally. Then, starting with oncology APIs, Laurus diversified into multiple other API segments and later into manufacturing of formulations, transforming itself into a well-diversified cost-competitive manufacturer of generic APIs and formulations. Currently, Laurus is also closing in fast on the business of custom synthesis of patented molecules for innovator pharmaceutical companies.

ARV API business can continue to grow

High new infection rate and less-than-optimal anti-retroviral therapy coverage means that there is still significant room for ART tenders to grow in volume. The shift from Efavirenz-based combinations to DTG-based combinations is also a growth driver for Laurus.

Other APIs can grow faster

In our view, oncology APIs can grow at mid-teens and other APIs at around 20% for a few years, on the current base. Laurus is accelerating capacity expansion with a total reactor volume of +7,000KL by FY23F. DPP-IV inhibitors that will go off-patent soon and sartans, where Laurus has developed an impurity-free process, will be major growth drivers.

Formulations and custom synthesis to be key growth drivers

From almost nothing in FY19, formulations became a Rs8.25bn business in FY20 and then further doubled to Rs16.85bn in FY21 to become the largest contributor (38%) to Laurus' topline. Custom synthesis business also grew larger over the last five years and currently contributes around 19% to overall topline. This business includes more than 50 ongoing projects in which 4 are commercial projects.

Even undershooting its guidance is an achievement

Laurus' guidance of US$1bn revenue in FY23F translates into >50% growth yoy. This is not unachievable going by history; we build in only 40% growth. We see upside to the stock price even if Laurus significantly undershoots its guidance, as such a high growth and operating leverage does not seem to be priced in. We assign Add rating to the stock with a target price of Rs626 based on 24x FY24F core EPS. Major price erosion in the anti-retroviral tender market in Africa is a downside risk.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	48,135	49,356	69,129	81,308	94,760
Operating EBITDA (Rsm)	15,507	14,224	19,487	23,026	26,945
Net Profit (Rsm)	9,838	8,322	11,778	14,303	17,090
Core EPS (Rs)	18.3	15.5	21.9	26.6	31.8
Core EPS Growth	285.4%	(15.4%)	41.5%	21.4%	19.5%
FD Core P/E (x)	25.49	30.13	21.29	17.53	14.67
DPS (Rs)	1.2	1.6	2.0	2.0	2.0
Dividend Yield	0.26%	0.34%	0.43%	0.43%	0.43%
EV/EBITDA (x)	16.99	18.78	13.96	11.83	9.87
P/FCFE (x)	47.87	27.32	34.37	15.39	9.79
Net Gearing	48.7%	49.3%	48.2%	37.8%	20.8%
P/BV (x)	9.65	7.48	5.64	4.35	3.40
ROE	45.1%	28.0%	30.2%	28.0%	26.0%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)			1.00	0.98	0.97

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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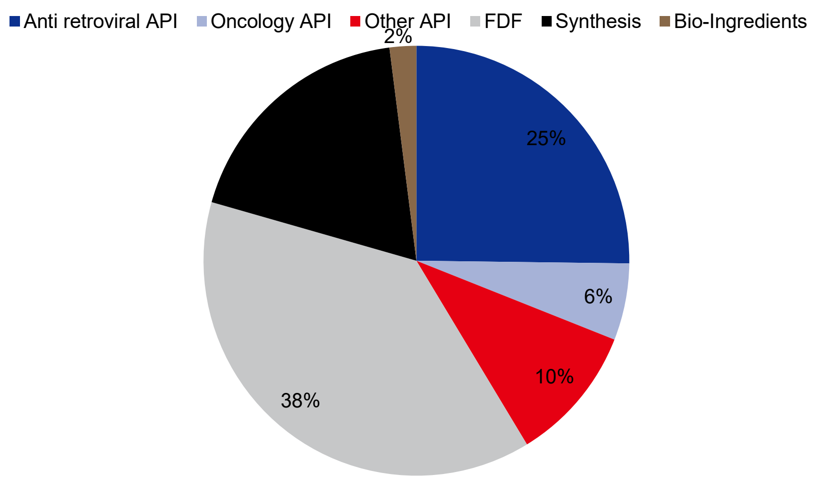
Growing out of the ARV foundation

Laurus Labs (Laurus) started off as an API manufacturer focused on anti-retrovirals – the anti-viral medications used in the treatment of human immuno-deficiency virus or HIV infection. The company's singular focus on a few molecules and the clear target on pharma company customers who in turn focused on the retro-viral drug tenders in the African market, helped Laurus to grow into one of the largest manufacturers of anti-retroviral APIs globally. Laurus is the global leader in Efavirenz API manufacturing and is one of the largest manufacturers of other anti-retroviral APIs, including Tenofovir, Lamivudine, and Dolutegravir. The economies of scale, innovative processes and a sharp focus on cost efficiency added further to the competitiveness of Laurus, gaining further market share. As the ARV API business got bigger and the market share larger, Laurus started diversifying into alternative products for sustaining its growth. Starting with oncology APIs, Laurus diversified into multiple other API segments and later into manufacturing of formulations, transforming itself into a well-diversified cost-competitive manufacturer of generic APIs and formulations. Currently, Laurus is also closing in fast on the business of custom synthesis of patented molecules for innovator pharmaceutical companies.

Only 25% of Laurus' FY22 topline came from anti-retroviral APIs – down from 82% in FY16. The largest contribution to FY22 topline came from the formulations business – 38%, which is a quick ramp-up for the business that was nearly non-existent in FY16. Custom synthesis business also ramped up to account for 18.6% of the topline, up from 4.7% in FY16.

Figure 28: Revenue contribution from various business segments in FY22

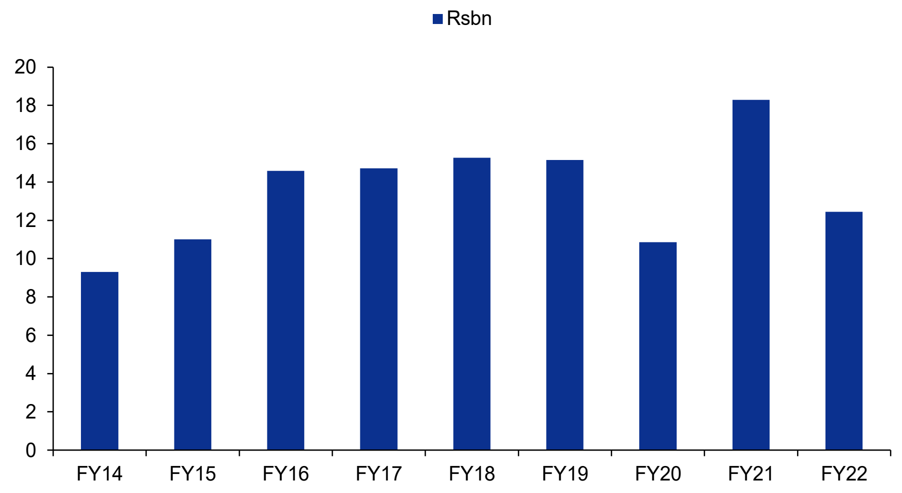


SOURCES: INCRED RESEARCH, COMPANY REPORTS

ARV API base business can continue to grow

Laurus's sudden growth and capture of a large share in the anti-retroviral API market affected its own growth as it became too big in a slow-growing market. Thus, the company's anti-retroviral API business peaked in FY16 and then saw a fall as there was price decline in API products. Also, the market started shifting towards Dolutegravir-based (DTG) combinations from Efavirenz-based combinations where Laurus is the market leader. However, this scenario changed in FY21 when API prices stabilized and Laurus also became an active player in DTG combinations.

Figure 29: Revenue from ARV API (Rsbn)



SOURCES: INCRED RESEARCH, COMPANY REPORTS

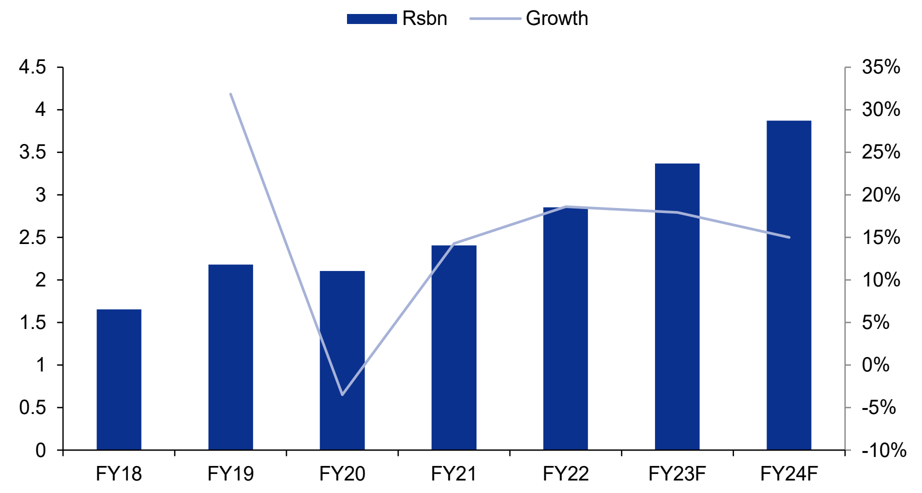
World Health Organization or WHO's new mandate of Multi-Month Dispensation (MMD; 90/180 count refill packs), triggered by the Covid-19 lockdowns, we believe, was the key reason for the large volume pick-up in FY21 and the drop from a high base in FY22. While we do not expect ARV API to be the major contributor to overall growth of Laurus, the business can continue growing at low-mid single digit percentage on the FY22 base.

As per estimates by the WHO and global non-governmental organizations or NGOs, ART global coverage was only 73% in 2020; it is unlikely to have improved materially in the last two years due to the disruptions associated with Covid-related lockdowns. Thus, there is still a significant room for ART tenders to grow in volume over the next few years. Further, new infection rate for HIV has remained stubbornly high since the past few years - new infections in CY20 were 1.5m, nearly 3x the WHO target for the year, and positivity rate in 2020 at AIDS Healthcare Facilities at 3.5% was higher than the previous five years. Thus, the diseased population itself is possibly growing or at least not contracting despite active intervention of healthcare agencies. An additional growth driver for ARV business of Laurus could be the continuing shift from Efavirenz-based combinations to DTG-based combinations in the first line of treatment.

Oncology/other API base businesses to grow faster

After ARV APIs, oncology was the second focus area of Laurus. The company has one of the largest 'high-potency' (oncology) API capacity in India, and it is expanding the capacity further. The oncology API business has grown at a 21.6% CAGR in the last five years and, given the base, it has the potential to grow at a mid-teen percentage for the next few years.

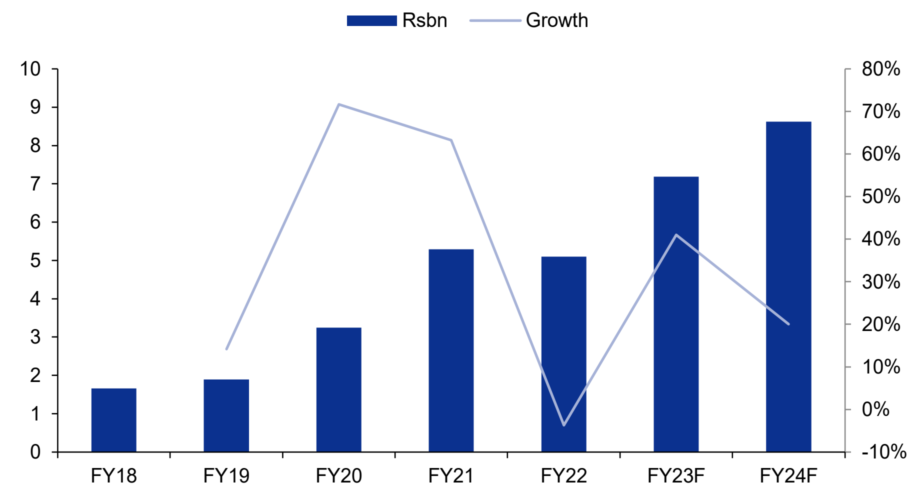
Figure 30: Revenue from oncology APIs



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Laurus is now focused on non-ARV and non-oncology APIs for the growth of its overall API business. The company is accelerating capacity expansion in select high-growth therapeutics with a total reactor volume of +7,000KL by 2022F-23F. Laurus has identified a few therapeutic areas as its focus areas - Anti-diabetic, Cardiovascular, Proton Pump Inhibitors (PPIs) and Central Nervous System (CNS). Within these, DPP-IV Inhibitors that will go off-patent in coming years and sartans, where the company has developed an impurity-free process, will be major growth drivers, in our view, for the next few years.

Figure 31: Revenue from non-ARV non-onco APIs

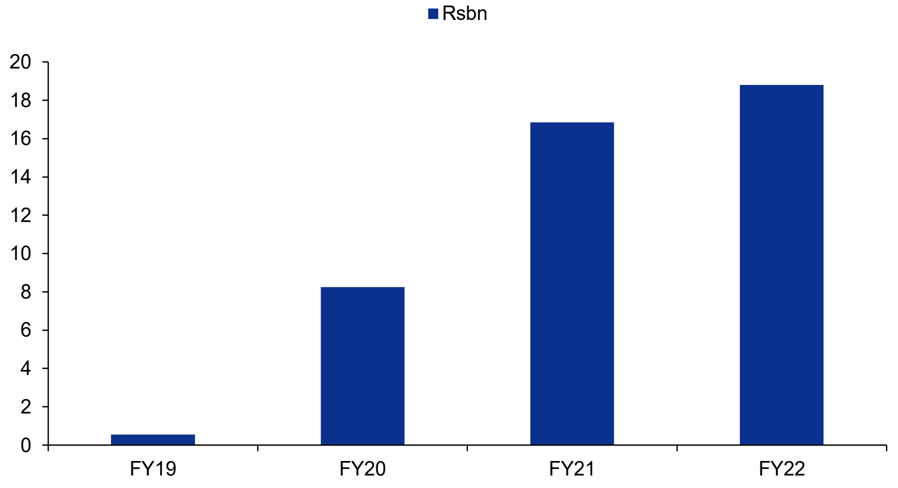


SOURCES: INCRED RESEARCH, COMPANY REPORTS

Formulations business is key growth driver

The formulations business of Laurus has been a critical growth driver for the company in recent times. From almost nothing in FY19, it became a Rs8.25bn business in FY20 and then further doubled to Rs16.85bn in FY21. Thus, from almost nowhere, it has become the largest contributor (38%) to the topline of Laurus.

Figure 32: Revenue from formulations business (Rsbn)



SOURCES: INCRED RESEARCH, COMPANY REPORTS

The formulations business strategy of Laurus involves:

1. ARV formulations for tenders in LMIC (low & middle-income) countries.
2. ARV and other formulations for developed markets – US and Europe.
3. Special opportunities such as Paxlovid special license from Pfizer for LMIC countries.

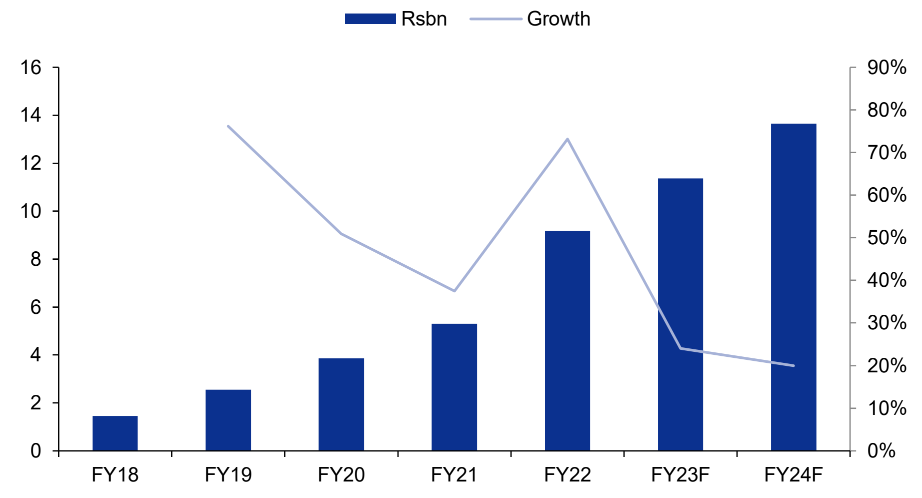
Of these, the ARV formulations business has been the major growth driver so far, but Laurus is actively working on other strategies to broad-base its business and sustain a healthy growth rate. It is actively building a solid ANDA portfolio in the US and is also filing products in the EU, Canada, and RoW. It has inked a large contract with an undisclosed European player for contract manufacturing of formulations for the European market; this, we believe, could be a major growth driver in the near term. The Paxlovid special license could be another major near-term growth driver.

Laurus is expanding its OSD (oral solid dosage) capacity from 5bn units to 10bn units per year and is focusing on those products where it has its own API manufacturing capabilities and are thus backward-integrated.

Custom synthesis business gathers pace - will become key to growth

The custom synthesis business of Laurus has also become larger over the last five years and currently contributes around 19% to its overall topline. This business includes more than 50 ongoing projects in which 4 are commercial projects. The company is building two dedicated manufacturing units and a dedicated R&D facility that will support further growth of this business. Laurus views this as one of the major growth drivers in the long run. We expect the business to deliver 20% growth in the near term.

Figure 33: Revenue from custom synthesis business



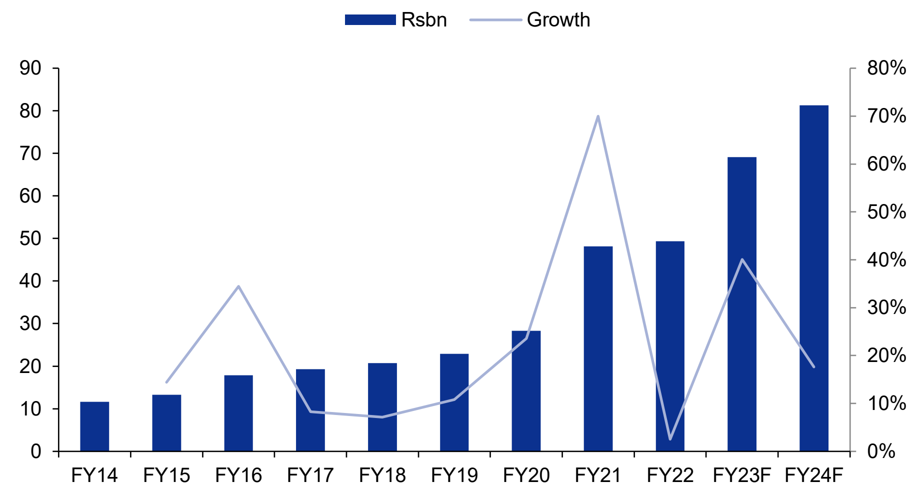
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Capacity ramp-up has significantly improved financial metrics

The business strategy of Laurus of investing heavily upfront on creating large capacity and then scouting for business opportunities to ramp up resulted in significant lumpiness in its performance. Thus growth, margins and return ratios remained volatile, but have improved significantly over the years.

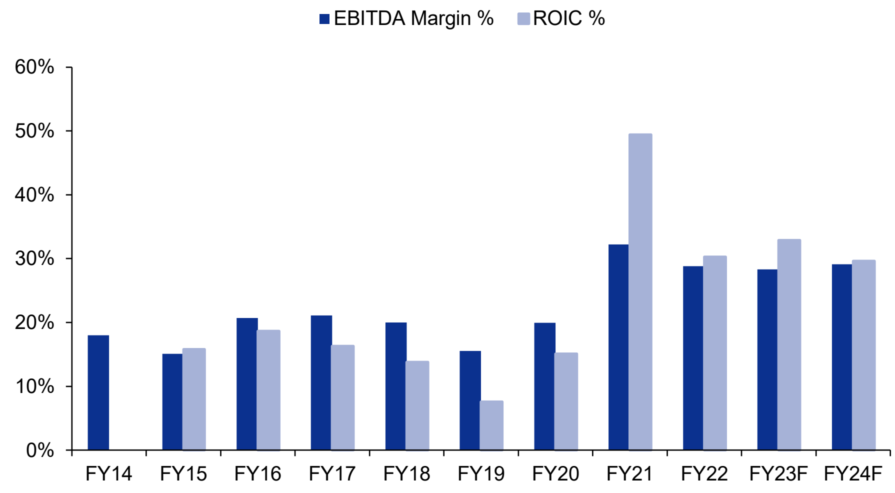
Although yoy revenue growth rate has fluctuated between 2.5% and 70% over the years, total revenue has grown at a 20% CAGR over the last eight years. EBITDA margin has improved by more than 10pp in that timeframe - from 18% in FY14 to 28.8% in FY22. RoIC has expanded by more than 15pp - from 15% in FY14 to 30.3% in FY22.

Figure 34: Total revenue has grown at a 20% CAGR



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 35: EBITDA margin and ROIC have jumped



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Exceptionally strong guidance; even undershooting is an achievement

Laurus has given an exceptionally strong revenue guidance of US$1bn for FY23F, which translates into a growth of more than 50% over FY22. To project forward estimates in line with the guidance is a big leap of faith, as B2B pharma businesses such as that of Laurus are opaque and their customer and product details confidential, thus leaving little visibility of where the growth could come from.

However, we also take into consideration that:

- Laurus does create capacity in advance and scouts for business opportunities for a quick ramp-up.
- This strategy has made lumpiness a part and parcel of Laurus financials.
- Growth rate above 50% in one-off years is not completely new for the company.

Thus, we build in 40% topline growth and similar EBITDA growth for FY23F. Even though this projection is a leap of faith on the company's management, there exists a definite risk of the company undershooting its guidance. But we believe that the stock price, even in that scenario, will see an upside from its current levels, considering:

a) The stock is not pricing in a big growth jump in FY23F, in our analysis – even on our growth numbers, well below the guidance, the stock trades at 21.6x FY23F P/E, at a major discount to its peers, in the range of 32-40x FY23F.
b) Thus, even if the company undershoots its guidance by half, still there could be a modest upside to the stock price.
c) The strong topline growth is likely to unlock big operating leverage and expand EBITDA margin – thus, even undershooting of topline guidance could mean profit growth closer to topline guidance growth; we have not built in the benefit of operating leverage in our estimates and maintain EBITDA margin as flat yoy.

Initiate coverage on the stock with an Add rating

Laurus stock trades at 21.6x FY23F core earnings, at a 30-40% discount to large peers such as Divi's Laboratories, Syngene, and Gland Pharma. We initiate coverage on Laurus with an Add rating and a target price of Rs626, which is 24x FY24F core earnings plus cash per share.

Figure 36: Core valuation table

	FY20	FY21	FY22	FY23F	FY24F
Core EPS (Rs)	4.7	17.9	15.2	21.5	26.1
Core EPS growth	207.1%	283.1%	-15.2%	41.4%	21.2%
Cash per share (Rs)	0.0	0.9	1.4	0.6	1.2
Current Core P/E (Rs)	99.1	25.9	30.5	21.6	17.8
Core ROIC	15.1%	49.4%	30.3%	32.9%	29.6%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Key risks

Intense competition and a major price erosion in the anti-retroviral tender market in Africa is a major downside risk.

Delay in ramp-up of formulations business capacity and newly created API capacity may lead to the company missing its aggressive growth guidance. This could be sentimentally bad for the stock price even if the valuation does not indicate that the guidance has already been priced in.

Like any other pharmaceutical player, Laurus also carries the risk of regulatory action by the drug regulators of various countries.

Peer valuation table

Figure 37: Peer group valuation

Bloomberg Ticker	Company	Rec	MCap (US$ bn)	Price	Target Price	Up/ down (%)	CORE EPS (x) FY22	CORE EPS (x) FY23F	CORE EPS (x) FY24F	PER (x) FY22	PER (x) FY23F	PER (x) FY24F	P/Bk (x) FY22	P/Bk (x) FY23F	EV/EBITDA (x) FY22	EV/EBITDA (x) FY23F	Yield (%) FY23F	ROAE (%) FY23F	ROCE (%) FY23F
Laurus IN	Laurus Labs	ADD	3.2	467	626	34.1	15.5	21.9	26.6	30.1	21.3	17.5	7.5	5.6	18.8	14.0	0.4	30.2	28.1
Divi IN	Divi's Laboratories	REDUCE	12.5	3681	3438	-6.6	111.5	103.5	111.0	33.0	35.6	33.2	8.3	7.1	24.4	25.0	0.0	21.6	26.4
Gland IN	Gland Pharma Ltd	HOLD	5.6	2644	2699	2.1	73.7	83.0	95.1	35.8	31.8	27.8	6.1	5.1	26.6	21.8	0.0	17.4	21.5
SYNG IN	Syngene International Ltd	-		568	425	-25.2	9.9	14.0	18.4	54.1	50.9	43.8	6.9	6.1	30.0	26.0	0.0	12.7	11.4
Simple Average							**52.6**	**55.6**	**62.8**	**38.3**	**34.9**	**30.6**	**7.2**	**6.0**	**25.0**	**21.7**	**0.1**	**20.5**	**21.8**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

SWOT analysis

Figure 38: SWOT analysis

Strengths	**Weaknesses**
Exceptionally lean cost of operations; large economies of scale.	Business concentrated in the niche segment – ARV in Africa, which adds to the risk.
Opportunities	**Threats**
The large pool of API/formulation markets globally to foray into for growth.	Rising raw material cost that could threaten margins.

SOURCES: INCRED RESEARCH, COMPANY REPORTS

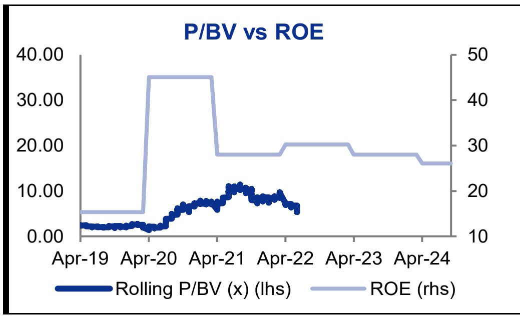
Management profile

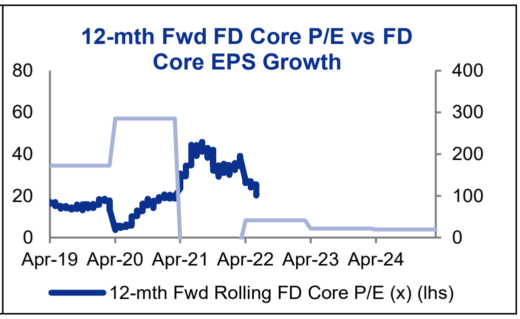
Figure 39: Management profile of Laurus Labs

Name	Designation	Profile
Dr. Satyanarayana Chava	Founder & Chief Executive Officer	Dr. Satyanarayana Chava is an executive whole-time director and the chief executive officer of the company. He has been a director of the company since 21 Jan 2006. He holds bachelor's and master's degrees and Ph.D degree.
Mr. V V Ravi Kumar	Executive Director & Chief Financial Officer	Mr. V. V. Ravi Kumar is executive whole-time director and chief financial officer of the company. He has been a director of the company since 30 Nov 2006 and is in charge of finance and human resource functions. He has also handled the supply chain management department.
Dr. Lakshman Chunduru	Executive Director – Quality	Dr. C. V. Lakshmana Rao is one of the promoters of the company. He has been associated with the company for more than a decade and heads quality function. He holds a master's degree in science and a Ph.D degree. He has over 23 years' experience in quality control, quality assurance and regulatory affairs.

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	**48,135**	**49,356**	**69,129**	**81,308**	**94,760**
Gross Profit	**26,553**	**27,418**	**36,638**	**43,093**	**50,223**
Operating EBITDA	**15,507**	**14,224**	**19,487**	**23,026**	**26,945**
Depreciation And Amortisation	(2,051)	(2,515)	(2,990)	(3,500)	(4,000)
Operating EBIT	**13,456**	**11,709**	**16,497**	**19,526**	**22,945**
Financial Income/(Expense)	(682)	(1,024)	(1,400)	(1,200)	(1,000)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	237	153	200	250	250
Profit Before Tax (pre-EI)	**13,011**	**10,839**	**15,297**	**18,576**	**22,195**
Exceptional Items					
Pre-tax Profit	**13,011**	**10,839**	**15,297**	**18,576**	**22,195**
Taxation	(3,173)	(2,515)	(3,518)	(4,272)	(5,105)
Exceptional Income - post-tax					
Profit After Tax	**9,838**	**8,324**	**11,778**	**14,303**	**17,090**
Minority Interests		(2)			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**9,838**	**8,322**	**11,778**	**14,303**	**17,090**
Recurring Net Profit	9,838	8,322	11,778	14,303	17,090
Fully Diluted Recurring Net Profit	**9,838**	**8,322**	**11,778**	**14,303**	**17,090**

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	15,507	14,224	19,487	23,026	26,945
Cash Flow from Invt. & Assoc.					
Change In Working Capital	5,941	3,416	(5,820)	(4,105)	(4,538)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(14,117)	(8,529)	(3,518)	(4,272)	(5,105)
Net Interest (Paid)/Received	(682)	(1,024)	(1,400)	(1,200)	(1,000)
Tax Paid	(13,672)	(7,658)	1,200	950	750
Cashflow From Operations	**7,330**	**9,111**	**10,148**	**14,648**	**17,302**
Capex	(6,839)	(8,767)	(13,000)	(13,000)	(9,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(2,583)	(276)			
Other Investing Cashflow					
Cash Flow From Investing	**(2,092)**	**68**	**(2,852)**	**1,648**	**8,302**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	74	43			
Shares Repurchased					
Dividends Paid	(750)	(859)	(860)	(1,077)	(1,079)
Preferred Dividends					
Other Financing Cashflow	3,237	1,022	3,289	(243)	(7,043)
Cash Flow From Financing	**2,561**	**207**	**2,429**	**(1,319)**	**(8,121)**
Total Cash Generated	469	274	(422)	329	180
Free Cashflow To Equity	**5,238**	**9,179**	**7,297**	**16,297**	**25,603**
Free Cashflow To Firm	**5,920**	**10,203**	**8,697**	**17,497**	**26,603**

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	491	766	344	673	853
Total Debtors	13,061	13,542	19,356	22,766	26,533
Inventories	15,755	17,603	22,121	26,019	30,323
Total Other Current Assets	1,442	1,536	2,420	2,846	3,317
Total Current Assets	**30,749**	**33,446**	**44,241**	**52,303**	**61,026**
Fixed Assets	22,772	32,086	42,096	51,596	56,596
Total Investments	34	308	308	308	308
Intangible Assets	2,556	2,571	2,571	2,571	2,571
Total Other Non-Current Assets	1,396	1,269	1,269	1,269	1,269
Total Non-current Assets	**26,758**	**36,234**	**46,244**	**55,744**	**60,744**
Short-term Debt	8,861	11,357	11,357	11,357	11,357
Current Portion of Long-Term Debt					
Total Creditors	11,787	8,764	12,411	14,571	16,954
Other Current Liabilities	3,923	6,690	8,439	9,908	11,529
Total Current Liabilities	**24,572**	**26,810**	**32,207**	**35,835**	**39,840**
Total Long-term Debt	4,292	5,963	10,453	11,160	4,867
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	2,637	3,316	3,316	3,316	3,316
Total Non-current Liabilities	**6,928**	**9,280**	**13,769**	**14,476**	**8,184**
Total Provisions					
Total Liabilities	**31,500**	**36,090**	**45,976**	**50,312**	**48,023**
Shareholders Equity	25,976	33,512	44,431	57,657	73,668
Minority Interests	32	79	79	79	79
Total Equity	**26,007**	**33,591**	**44,509**	**57,736**	**73,747**

Key Ratios

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	70.0%	2.5%	40.1%	17.6%	16.5%
Operating EBITDA Growth	174.7%	(8.3%)	37.0%	18.2%	17.0%
Operating EBITDA Margin	32.2%	28.8%	28.2%	28.3%	28.4%
Net Cash Per Share (Rs)	(23.56)	(30.81)	(39.95)	(40.65)	(28.61)
BVPS (Rs)	48.34	62.36	82.68	107.30	137.09
Gross Interest Cover	19.74	11.44	11.78	16.27	22.94
Effective Tax Rate	24.4%	23.2%	23.0%	23.0%	23.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	79.52	98.37	86.85	94.55	94.95
Inventory Days	209.77	277.50	223.13	229.90	230.87
Accounts Payables Days	151.73	170.96	118.94	128.85	129.18
ROIC (%)	24.4%	16.5%	17.9%	17.7%	18.6%
ROCE (%)	40.5%	26.0%	28.1%	26.6%	27.0%
Return On Average Assets	21.8%	14.3%	16.0%	15.3%	15.5%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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