

SELL

TP: Rs 305 | ▼ 32%

LAURUS LABS

| Pharmaceuticals

| 25 October 2024

Another weak quarter

- Earnings miss for 2Q on our and street estimates on all fronts. Revenue/PAT came short of consensus estimates by -5%/39%
- EBITDA margin for H1FY25 is 14.5%. We believe management shall not achieve guided 20% margin in FY25
- We cut our EPS estimates for FY25/FY26/FY27 and roll over valuations to Sep'26, valuing LAURUS at 45x due to its CDMO arm. Maintain SELL

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Weak Q2: Laurus's Q2FY25 result was below our and street expectations (BoBCap estimates: Revenue -5%, EBITDA -11% and APAT -36%) mainly due to the temporary shutdown of its facility, lack of demand in Oncology therapy, price erosion in the Others API portfolio, and operational deleverage from higher upfront cost towards capex. Overall, 2QFY25 revenue was flat and EBITDA declined by -5% YoY. Increased capacities raised depreciation by 15% YoY and interest costs by 24% YoY, resulting in a 46% decline in PAT.

Lower API sales offset CDMO growth: During 2QFY25, API sales declined by 13% YoY primarily due to 1) 58% decline in Oncology sales impacted by lack of demand due to increased competition, 2) flat growth in ARV API due to volume dipping on account of temporary plant shutdown for modification and 3) flat growth in the Others API impacted by price erosion. This offset 33% growth in the Synthesis segment driven by increased demand in small molecules.

Operating deleverage impacted margins: Gross margin improved 265bps YoY but was flat QoQ primarily due to healthy CDMO sales. However, higher outflow of capex and increased working capital resulted in a 77bps decline YoY in EBITDA margin to 14.6% (25bps increase QoQ).

Is guidance of 20% EBITDA margin achievable? Management guided for 20% EBITDA margin on account of a healthy H2 which could witness increase shipment and commercialisation of CDMO molecules. However, LAURUS achieved 14.5% EBITDA margin in H1FY25. Due to operating deleverage we expect the company shall achieve an optimal 18% EBITDA margin in FY25e.

Maintain SELL with unchanged TP of Rs 305: As earnings were below our estimates and we believe LAURUS will not achieve its guided EBITDA margin of 20%, we have lowered our EPS estimates (-36.7% for FY25E, -45% for FY26E and -37% for FY27E) but our TP remains at Rs 305 as we roll forward our valuation to Sep'26 ascribing a target P/E of 45x.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	LAURUS IN/Rs 447
Market cap	US\$ 2.9bn
Free float	74%
3M ADV	US\$ 13.5mn
52wk high/low	Rs 518/Rs 349
Promoter/FPI/DII	27%/23%/5%

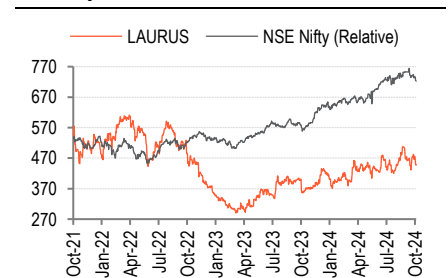
Source: NSE | Price as of 24 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	50,410	53,473	59,195
EBITDA (Rs mn)	7,777	9,625	11,247
Adj. net profit (Rs mn)	1,607	2,375	3,119
Adj. EPS (Rs)	3.0	4.4	5.8
Consensus EPS (Rs)	3.8	8.6	13.2
Adj. ROAE (%)	3.9	5.7	7.2
Adj. P/E (x)	149.3	101.1	76.9
EV/EBITDA (x)	33.7	27.5	23.5
Adj. EPS growth (%)	(79.7)	47.8	31.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

ARV segment: During H1FY25, antiretroviral (ARV) sales were Rs 3.6bn and non-ARV Rs 2.3bn. ARV sales were lower due to certain modifications in its manufacturing facilities which created capacity shortages for a few products, affecting dispatches in Q2. LAURUS expects the manufacturing capacity to resume operations from Nov'24. It expects ARV sales to be flattish during the year.

Oncology API: Oncology sales were impacted due to increased competition in key products. However, Oncology sales will go back to growth when compared to last year.

FDf sales: Management expects sales to be driven by the increasing market share of existing products in the North America region which were approved in the last two to three quarters.

CDMO: In FY25, the most growth is expected to come from the synthesis segment, in which management has been investing for the past two years. The company is able to secure customers & projects and execution have been smooth from the beginning of FY25.

H2FY25 to be better than H1FY25: Management does not expect H2 to be an average year. H2 is expected to be driven by order book and expected project deliveries. LAURUS believes the quantum of business to be better from FY24 to FY25. ETR expected at 28% for FY25.

Margins: LAURUS expects EBITDA margin to be closer to 20% in FY25 than the 15% in FY24 amidst operational deleverage.

Net debt/EBITDA: Net debt/EBITDA increased to 3.4x and the company expects it to improve in H2FY25.

Gilead licensing approval for g lenacapavir: Among the current licences, some have API capital, some have no API capital, while some have no ARV API experience. At some point either LAURUS will get a licence from Gilead or a sub licence from the manufacturers to make their API. So LAURUS is still very hopeful on that front.

R&D centre for small molecule: LAURUS recently opened up the new small molecular R&D centre at IKP Hyderabad, which significantly elevates its one-stop development and manufacturing service capability, enabling innovators to accelerate their clinical and commercial-based projects using cutting edge technology. The new centre is seeing good interest from several existing biopharma customers for early-stage process development work and believes it will play an important role in driving our future growth.

Hopes to become a CDMO company: LAURUS is on track to evolve into a well-respected and diversified CDMO, meeting complex needs of innovator customers by executing long-term investment strategy to advance development expertise and build integrated large-scale manufacturing capabilities.

ANDA filings: LAURUS had 42 ANDAs and 87 DMFs filed in 1HFY25. Out of 87, 70 are towards human health and 20 animal health.

Fig 1 – Quarterly performance

Rs mn	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	FY24	FY23	YoY (%)
Net Sales	12,237	12,245	(0.1)	11,949	2.4	50,408	60,406	(16.6)
EBITDA	1,783	1,879	(5.1)	1,712	4.2	7,775	15,922	(51.2)
Depreciation	1,075	934	15.1	1,061	1.4	3,846	3,241	18.7
EBIT	708	945	(25.1)	651	8.7	3,929	12,681	(69.0)
Interest	526	424	24.1	492	7.0	1,829	1,652	10.7
Other Income	46	18	158.4	25	83.3	263	60	339.0
PBT	228	539	(57.7)	185	23.6	2,364	11,089	(78.7)
Less: Taxation	51	146	(65.1)	63	(18.6)	682	3,123	(78.2)
Less: Minority Interest	(21)	24	(189.5)	(3)	606.7	74	65	14.0
Recurring PAT	198	370	(46.3)	125	58.6	1,608	7,902	(79.6)
Exceptional items	0	0		0		0	0	
Reported PAT	198	370	(46.3)	125	58.6	1,608	7,902	(79.6)
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	55.2	52.5	265	55.1	12	51.7	54.1	(233)
EBITDA Margin	14.6	15.3	(77)	14.3	25	15.4	26.4	(1,093)
Tax / PBT	22.3	27.0	(472)	33.9	(1154)	28.8	28.2	67
NPM	1.6	3.0	(140)	1.0	57	3.2	13.1	(989)
EPS (Rs)	0.4	0.7	(46.3)	0.2	58.6	3.0	14.8	(79.8)

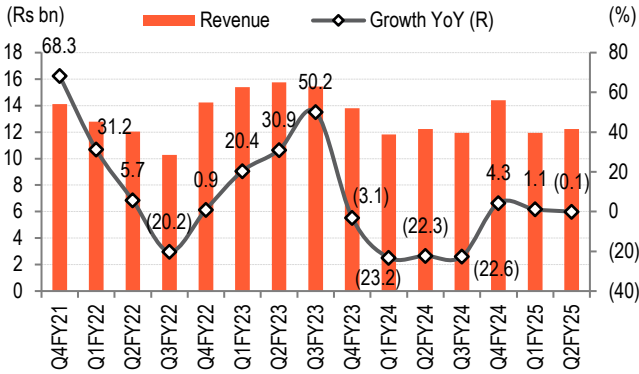
Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs Mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	FY24	FY23	YoY (%)
Generics – API	5,570	6,290	(11.4)	6,640	(16.1)	25,450	26,090	(2.5)
ARVs	3676	3,711	(0.9)	3,984	(7.7)	15,370	15,090	1.9
Oncology	501	1,195	(58.1)	1,195	(58.1)	4,083	3,195	27.8
Other API	1,393	1,384	0.6	1,461	(4.7)	5,997	7,805	(23.2)
Synthesis	2,990	2,240	33.5	2,140	39.7	9,220	21,670	(57.5)
Formulations	3,280	3,320	(1.2)	2,740	19.7	14,140	11,400	24.0
Bio	400	390	2.6	430	(7.0)	1,600	1,250	28.0
Net Sales	12,239	12,245	0.0	11,949	2.4	50,406	60,406	(16.6)

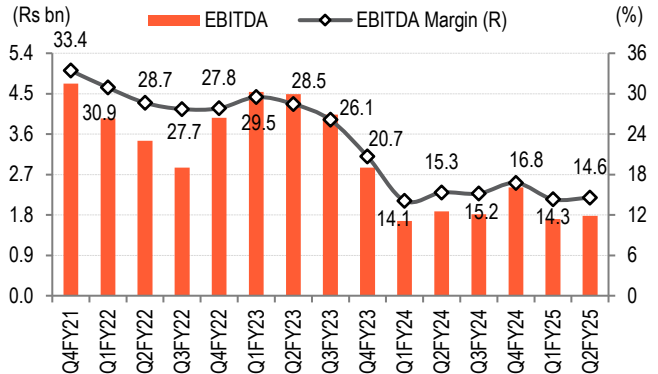
Source: Company, BOBCAPS Research

Fig 3 – Sales increased marginally due to higher CDMO sales



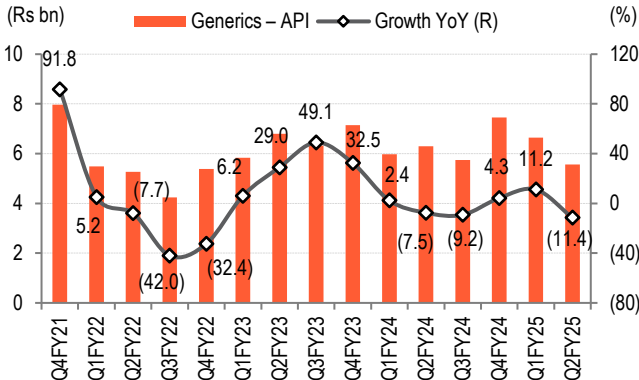
Source: Company, BOBCAPS Research

Fig 4 – EBITDA margin declined due to negative operating leverage



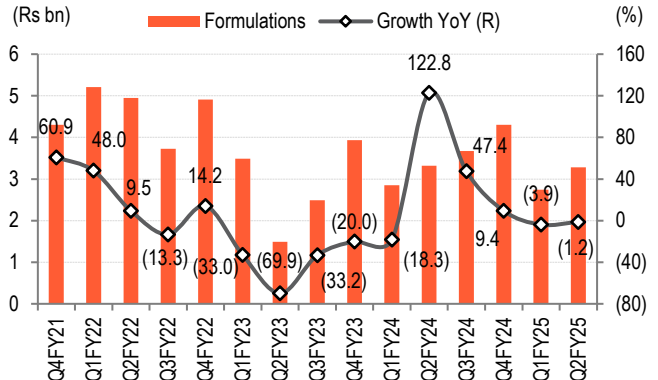
Source: Company, BOBCAPS Research

Fig 5 – Generic API sales declined due to lower demand in Oncology API



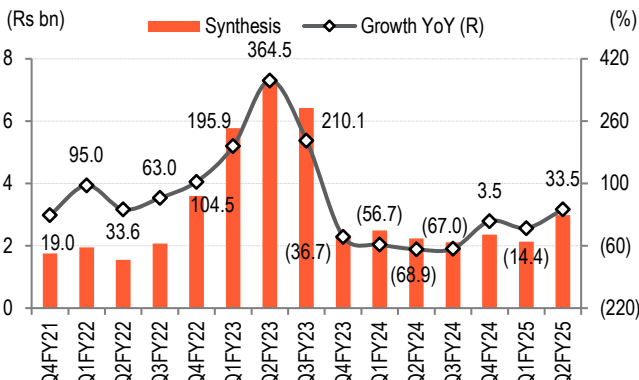
Source: Company, BOBCAPS Research

Fig 6 – FDF sales declined due to lower ARV sales



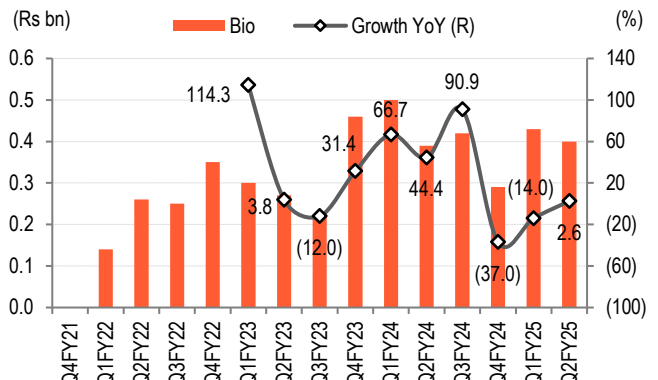
Source: Company, BOBCAPS Research

Fig 7 – Synthesis sales increased due to higher demand in smaller molecules



Source: Company, BOBCAPS Research

Fig 8 – Bio sales expected to decline going forward



Source: Company, BOBCAPS Research

Valuation methodology

Following LAURUS's weak Q2 and H1FY25 performance, We believe management would not be able to achieve its 20% EBITDA margin guidance. Hence, we have lowered our EPS estimates (-36.7% for FY25E, -45% for FY26E and -37% for FY27E). Valuing the stock at a P/E of 45x due to product mix changing towards CDMO (from 10x, earlier focus was on API), in line with its five-year average, we have rolled forward our valuations to Sep'26 and maintained our target price at Rs 305. We maintain a SELL rating.

Fig 9 – Revised estimates

(Rs mn)	Actual		Revised		Old			Change (%)		
	FY24	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	50,410	53,473	59,195	65,536	56,934	63,020	69,764	(6.1)	(6.1)	(6.1)
EBITDA	7,777	9,625	11,247	13,107	11,387	14,495	16,046	(15.5)	(22.4)	(18.3)
EBITDA margin (%)	15.4	18.0	19.0	20.0	20.0	25.5	28.2	(200bps)	(646bps)	(818bps)
EPS (Rs)	3.0	4.4	5.8	7.5	7.0	10.6	12.0	(36.7)	(45.2)	(37.1)

Source: BOBCAPS Research

Fig 10 – Key assumptions

(Rs mn)	FY24	FY25E	FY26E	FY27E
Generics API	25,450	26,257	28,962	31,948
Generic FDF	14,140	15,130	16,643	18,307
Synthesis	9,220	10,326	11,566	12,953
Bio	1,600	1,760	2,024	2,328
Total sales	50,410	53,473	59,195	65,536
EBITDA	7,777	9,625	11,247	13,107
EBITDA margin (%)	15.4	18.0	19.0	20.0
PAT	1,607	2,375	3,119	4,036
EPS (Rs)	3.0	4.4	5.8	7.5

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- higher capacity utilisation, thereby improving operating performance,
- recovery in CDMO revenue, and
- revival of API business growth with improved pricing.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	60,410	50,410	53,473	59,195	65,536
EBITDA	15,926	7,777	9,625	11,247	13,107
Depreciation	3,241	3,846	4,396	4,996	5,596
EBIT	12,686	3,931	5,229	6,251	7,511
Net interest inc./(exp.)	(1,652)	(1,829)	(2,037)	(2,037)	(2,037)
Other inc./(exp.)	60	263	107	118	131
Exceptional items	0	0	0	0	0
EBT	11,094	2,365	3,299	4,332	5,605
Income taxes	3,123	682	924	1,213	1,569
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	65	77	0	0	0
Reported net profit	7,906	1,607	2,375	3,119	4,036
Adjustments	0	0	0	0	0
Adjusted net profit	7,906	1,607	2,375	3,119	4,036

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	7,107	10,512	9,523	10,542	11,671
Other current liabilities	5,921	3,858	5,347	5,919	6,554
Provisions	1,016	1,183	1,255	1,389	1,538
Debt funds	22,074	27,162	27,162	27,162	27,162
Other liabilities	0	0	0	0	0
Equity capital	1,077	1,078	1,078	1,078	1,078
Reserves & surplus	39,409	40,078	41,526	43,635	46,660
Shareholders' fund	40,487	41,156	42,604	44,713	47,738
Total liab. and equities	76,604	83,870	85,890	89,724	94,662
Cash and cash eq.	485	1,417	5,944	3,353	2,095
Accounts receivables	15,804	16,629	14,650	16,218	17,955
Inventories	16,848	18,454	14,650	16,218	17,955
Other current assets	3,374	3,002	2,674	2,960	3,277
Investments	499	1,240	1,240	1,240	1,240
Net fixed assets	31,494	36,247	39,851	42,855	45,259
CWIP	5,508	4,228	4,228	4,228	4,228
Intangible assets	2,592	2,653	2,653	2,653	2,653
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	76,604	83,870	85,890	89,724	94,662

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	7,798	4,902	13,454	6,419	7,752
Capital expenditures	(10,492)	(8,000)	(8,000)	(8,000)	(8,000)
Change in investments	(191)	(741)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(10,683)	(8,741)	(8,000)	(8,000)	(8,000)
Equities issued/Others	3	1	0	0	0
Debt raised/repaid	1,301	5,087	0	0	0
Interest expenses	5	2	0	0	0
Dividends paid	(1,010)	(1,011)	(1,011)	(1,011)	(1,011)
Other financing cash flows	2,312	692	84	0	0
Cash flow from financing	2,610	4,771	(927)	(1,011)	(1,011)
Chg in cash & cash eq.	(275)	932	4,528	(2,591)	(1,258)
Closing cash & cash eq.	485	1,417	5,944	3,353	2,095

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	14.7	3.0	4.4	5.8	7.5
Adjusted EPS	14.7	3.0	4.4	5.8	7.5
Dividend per share	1.5	1.5	1.5	1.5	1.5
Book value per share	75.2	76.6	79.2	83.1	88.7

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.3	5.2	4.9	4.5	4.0
EV/EBITDA	16.2	33.7	27.5	23.5	20.1
Adjusted P/E	30.4	149.3	101.1	76.9	59.5
P/BV	5.9	5.8	5.7	5.4	5.0

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	71.3	67.9	72.0	72.0	72.0
Interest burden (PBT/EBIT)	87.5	60.2	63.1	69.3	74.6
EBIT margin (EBIT/Revenue)	21.0	7.8	9.8	10.6	11.5
Asset turnover (Rev./Avg TA)	25.8	19.3	19.4	20.9	22.3
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.7	1.6	1.6
Adjusted ROAE	21.4	3.9	5.7	7.2	8.8

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	22.4	(16.6)	6.1	10.7	10.7
EBITDA	11.9	(51.2)	23.8	16.9	16.5
Adjusted EPS	(4.6)	(79.7)	47.8	31.3	29.4
Profitability & Return ratios (%)					
EBITDA margin	26.4	15.4	18.0	19.0	20.0
EBIT margin	21.0	7.8	9.8	10.6	11.5
Adjusted profit margin	13.1	3.2	4.4	5.3	6.2
Adjusted ROAE	21.4	3.9	5.7	7.2	8.8
ROCE	21.8	6.4	7.7	9.0	10.4
Working capital days (days)					
Receivables	95	120	100	100	100
Inventory	102	134	100	100	100
Payables	43	76	65	65	65
Ratios (x)					
Gross asset turnover	1.3	0.9	0.9	0.8	0.8
Current ratio	2.6	2.5	2.4	2.2	2.1
Net interest coverage ratio	7.7	2.1	2.6	3.1	3.7
Adjusted debt/equity	0.5	0.6	0.5	0.5	0.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

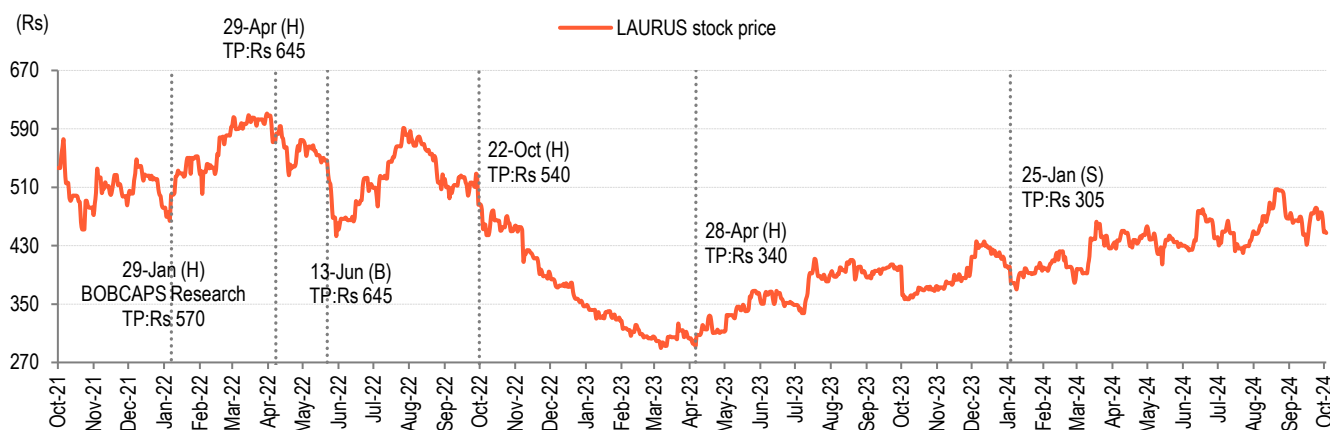
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): LAURUS LABS (LAURUS IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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