

HOLD

TP: Rs 641 | ▼ 1%

LAURUS LABS

| Pharmaceuticals

| 25 April 2025

Visibility of Operating Leverage

- Revenue/EBITDA/PAT exceeded our estimates by 8.4%/32.6%/110.3%; EBITDA margin surpassed our estimate by 440 bps
- CDMO sales contribution to increase to 39% by FY27E from 25% in FY25, due to peak revenue contribution from Animal Health in FY27

Due to Operating leverage visibility, we raise EPS by 30% in FY26E and 28% in FY27E; ascribe a PE of 50x and upgrade to HOLD

Foram Parekh

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Result above estimates: Earnings surpassed our estimates on all fronts. Sales grew by 19.5% YoY to Rs 17.2bn (our estimate: Rs 15.8bn), primarily driven by the CDMO segment that grew by 95% and Formulations that grew by 27% to Rs 5.4bn. This growth was offset by 7.5% decline in the Generics API segment. ARV sales for the quarter has lowered to Rs 8bn for 4QFY25 and Rs 25bn for FY25. Higher CDMO sales and operating leverage resulted in 74.2% growth in EBITDA to Rs 4.2bn (our estimate: Rs 3.2bn) and subsequently, margin increased by 768 bps to 24.4%. Healthy operations and 216% jump in Other income to Rs 586 mn (our estimate: 100 mn) resulted in 210% growth in PAT to Rs 2.3bn (our estimate: Rs1.1 bn).

CDMO sales growth on lower base – CDMO sales in small molecules grew by 95% to Rs 4.6bn, largely driven by growth in several mid-to-late stage NCE deliveries and steady increase in sales from new manufacturing assets. During FY25. LAURUS commercialised 15 small molecules. Overall, they have a healthy pipeline of 110+ active projects out of which, 90 are in human health while 20 in animal health and crop protection. LAURUS recently commercialised its crop protection facility, still in the nascent stage. However, animal health peak revenue is expected in FY27; hence, we expect CDMO segment to grow at 40% CAGR from FY25-27E to Rs 26.9 bn.

EBITDA margin to increase albeit lower than peers – LAURUS reported 22% EBITDA margin in H2FY25 from the guided margin of 25%. However, it did report 24.4% margin in 4QFY25, primarily due to 95% growth in CDMO and operating leverage by reducing SG&A sales contribution to 19.7% vs 21.9% in 4QFY24. We believe margins for LAURUS would remain lower than its peer CDMO companies, as it has ~30% sales driven from the low-margin API segment. We also expect ARV sales to remain ~25bn, though expect its contribution to lower to 36% by FY27 from the current 45%. Despite factoring all the operating leverage and CDMO growth story, we expect EBITDA margin to be lower at 25% by FY27E than its CDMO peers which operate above 35%.

Key changes

Target	Rating
▲	▲

Ticker/Price	LAURUS IN/Rs 646
Market cap	US\$ 4.1bn
Free float	74%
3M ADV	US\$ 22.0mn
52wk high/low	Rs 661/Rs 385
Promoter/FPI/DII	27%/23%/5%

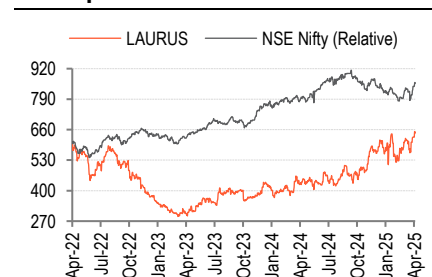
Source: NSE | Price as of 24 Apr 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	55,540	61,954	69,919
EBITDA (Rs mn)	10,553	13,940	17,480
Adj. net profit (Rs mn)	3,583	5,501	7,647
Adj. EPS (Rs)	6.7	10.3	14.3
Consensus EPS (Rs)	6.7	10.8	15.9
Adj. ROAE (%)	8.3	11.7	14.6
Adj. P/E (x)	96.7	63.0	45.3
EV/EBITDA (x)	35.2	26.9	21.6
Adj. EPS growth (%)	122.9	53.5	39.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



API segment expected to decline - Generics API, which currently contributes 40% of sales reported 8.3% YoY decline in sales during the quarter. The decline in yearly sales can be attributed to lower Oncology API and Others API as ARV API has reported 2% decline to Rs 4bn. Going forward, we expect the segment to decline due to continuous weakness in both Oncology and Others API and dependence on external sourcing in the ARV space. Hence, we expect this segment to decline at 8% CAGR from FY25-27E.

Operating leverage kicking in; upgrade to HOLD - We believe rising focus on CDMO sales through human health and incremental sales from animal health and crop protection that have garnered a Rs 7bn capex and asset turn also expected to be higher than the current 0.83x; EBITDA margin will rise from its earlier levels to 25%. However, we believe that 25% EBITDA margin is lower than its industry peers, which operate at 35% and above. As we factor in higher CDMO & Formulation sales and operating leverage kicking in, we revise our EPS by 30% in FY26E and 28.4% in FY27E. Hence, we upgrade the stock to HOLD. At CMP, the stock is trading at a PE of 63.1x and 45.4x on FY26 and FY27E respectively. Due to elongated working capital days and an industry-lower ROCE, we reduce our ascribed PE to 45x (earlier 50x) on FY27E EPS of Rs 14.3, to arrive at TP of RS 641 per share.

Concall Highlights

CDMO –

Segment contribution in the last five years has increased from 13% to 28% in FY25.

Growth in small molecules was driven by several mid-to-late-stage deliveries and steady increase in sales from new manufacturing asset.

Pipeline products – Currently, have a pipeline of 110+ active projects — 90 in human health and over 20 in animal health and crop sciences.

Commercial products - Over 15 commercial projects, including APS and intermediates.

Vizag capex to invest close to Rs 2.5bn in projects that will more than double our production capacity by the end of 2026. Expect commercialisation of fermentation facility by June'25 using Enzyme engineering platform.

Animal health - By the end of next year, all validations will get completed and go into commercial, which is a significant jump in animal and revenues in FY26.

Crop Science commercialised facility last quarter and needs one more year for clarity on the division.

Animal and Crop protection capex both done for Rs 7bn.

Formulations have executed multiple integrated and new CMO contracts in the year. Expect these increased sales to continue in future quarters, driving continued improvement in utilisation rates.

ARV

Segment contribution in the last five years has decreased from 67% to 45% in FY25.

ARV sales for FY25 grew by 1% and is at Rs 25bn. It is expected to remain in the same range.

Operating margin expected to improve from better effective deliveries and also from the product mix.

Capex invested Rs 2bn in Q4 and Rs 6.59 bn FY25. Most of the capex expansion is being invested into CDMO and CMO projects. Expect future capex to be ~10 bn.

Net debt stood at Rs2,594 crores and net debt by EBITDA is 2.3 vs 3.1 in the last year.

Capital allocation - strategy to continue prioritising investment into high-value business segments to drive near and long-term growth, remains unchanged.

Financial Highlight

Fig 1 – Financial Highlight

(Rs mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	YoY (%)	FY24	FY25	FY26E	FY27E
Net Sales	17,203	14,397	19.5	14,151	21.6	6.5	50,410	55,540	61,954	69,919
Other Related Income										
Total Income	17,203	14,397	19.5	14,151	21.6	6.5	50,410	55,540	61,954	69,919
Total Expenses	12,997	11,982		11,299			42,633	44,987	48,014	52,439
(%) of net sales	76	83		80			85	81	78	75
Raw material consumed	7,827	7,220	8.4	6,102	28.3	-0.9	24,324	24,780	27,260	30,065
(%) of net sales	45	50		43			48	45	44	43
Staff cost	1,777	1,611	10.3	1,891	-6.0	13.2	6,399	7,195	7,125	7,691
(%) of net sales	10	11		13			13	13	12	11
SG&A	3,393	3,151	7.7	3,306	2.6	9.8	9,500	10,235	11,152	11,886
(%) of net sales	19.7	21.9		23.4			19	18	18	17
EBITDA	4,206	2,415	74.2	2,852	47.5	18.4	7,777	10,553	13,940	17,480
Depreciation	1,104	1,023	8.0	1,061	4.1	13.2	3,846	4,301	4,536	5,166
EBIT	3,102	1,392	122.8	1,791	73.2	24.2	3,931	6,252	9,403	12,313
Interest	564	505	11.7	578	-2.4	20.5	1,829	2,160	2,279	2,328
Other Income	586	185	216.1	94	521.8	111.7	263	751	310	350
PBT	3,123	1,073	191.2	1,307	139.0	33.2	2,365	4,843	7,433	10,334
Less: Taxation	785	320	145.6	401	95.8	42.0	682	1,299	1,933	2,687
Less: Minority Interest		-6	-100.0	0	-100.0	-130.2	77	-39	0	0
Recurring PAT	2,339	753	210.5	906	158.1	29.8	1,684	3,544	5,501	7,647
Key Ratios (%)										
Gross Margin	54.5	49.8	465	56.9	-238	327.5	51.7	55.4	56.0	57.0
EBITDA Margin	24.4	16.8	768	20.2	430	167.1	15.4	19.0	22.5	25.0
Tax / PBT	25.1	29.8	-466	30.7	-554		28.8	26.8	26.0	26.0
NPM	13.6	5.2	836	6.4	719	56.5	3.3	6.4	8.9	10.9
EPS (Rs)	4.4	1.4	210.5	1.7	158.1	29.5	3.1	6.6	10.2	14.2

Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	YoY (%)	FY24	FY25	FY26E	FY27E
Generics – API	6,860	7,450	-7.9	5,310	29.2	(2.7)	25,450	24,380	23,161	20,845
CDMO	4,610	2,360	95.3	4,000	15.3	33.1	9,220	13,740	19,236	26,930
Formulations	5,440	4,300	26.5	4,360	24.8	5.5	14,140	15,820	17,877	20,379
Bio	290	290	0.0	480	-39.6	-	1,600	1,600	1,680	1,764
Net Sales	17,199	14,405	19.4	14,149	21.6	6.5	50,410	55,540	61,949	69,914

Source: Company, BOBCAPS Research

Valuation methodology

LAURUS' numbers exceeded our estimates on all fronts, primarily due to growth picking up in the CDMO segment on a lower base. This resulted in 55% gross margin and 24.4% EBITDA margin in 4QFY25. CDMO growth was driven primarily by commercialisation of 15 molecules in the human health segment. Also, the company is shifting focus from supplying key starting materials (KSM) and intermediates to complex high-value molecules, including ADCs.

Going forward, we expect growth in the CDMO segment to sustain, led by higher sales and a healthy pipeline of 110 projects, out of which 90 are in human health and 20 in animal health. Animal health peak revenue is expected from FY27 and crop protection sales to also pick up from FY27.

We believe that the rising focus on CDMO sales through human health and incremental sales from the animal health and crop protection segments, which have garnered a capex of Rs 7bn and asset turn is also expected to be higher than the current 0.83x, EBITDA margin will rise from its earlier levels to 25%. However, 25% EBITDA margin is lower than industry peers, which operate at 35% and above.

As we factor in higher CDMO & Formulation sales and the operating leverage kicking in, we revise our EPS by 30% in FY26E and 28.4% in FY27E. Hence, we upgrade the stock to HOLD. At CMP, the stock is trading at a PE of 63.1x and 45.4x on FY26 and FY27E respectively. Due to elongated working capital days and industry lower ROCE, we lower our ascribed PE to 45x (earlier 50x) on FY27E EPS of Rs 14.3 to arrive at TP of RS 641 per share.

Fig 3 – Change in Estimates

(Rs mn)	NEW			Old			Change (%)		
	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E
Sales	55,540	61,954	69,919	55,730	63,242	71,164	(0.3)	(2.0)	(1.8)
EBITDA	10,553	13,940	17,480	10,589	12,965	15,656	(0.3)	7.5	11.6
EBITDA margin (%)	19.0	22.5	25.0	19.0	20.5	22.0	(0bps)	200bps	300bps
EPS (Rs)	6.7	10.3	14.3	5.7	7.9	11.1	17.2	29.8	28.4

Source: Company, BOBCAPS Research

Fig 4 – Key Assumption

(Rs mn)	FY24	FY25	FY26E	FY27E
Generics API	25,450	24,380	23,161	20,845
Generic FDF	14,140	15,820	17,877	20,379
Synthesis	9,220	13,740	19,236	26,930
Bio	1,600	1,600	1,680	1,764
Total sales	50,410	55,540	61,954	69,919
EBITDA	7,777	10,553	13,940	17,480
EBITDA M	15.4	19.0	22.5	25.0
PAT	1,607	3,583	5,501	7,647
EPS	3.0	6.7	10.3	14.3

Source: Company, BOBCAPS Research

Key risks

Key Upside Risk are

- higher capacity utilisation, thereby improving operating performance,
- faster execution of capex, and higher asset turn
- revival of API business growth with improved pricing

Downside Risk

- Lower capacity utilisation, thereby delaying operating performance,
- slower execution of capex, and lower asset turn
- slower growth in API business with lower pricing

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Total revenue	60,410	50,410	55,540	61,954	69,919
EBITDA	15,926	7,777	10,553	13,940	17,480
Depreciation	3,241	3,846	4,301	4,536	5,166
EBIT	12,686	3,931	6,252	9,403	12,313
Net interest inc./(exp.)	(1,652)	(1,829)	(2,160)	(2,279)	(2,328)
Other inc./(exp.)	60	263	751	310	350
Exceptional items	0	0	0	0	0
EBT	11,094	2,365	4,843	7,433	10,334
Income taxes	3,123	682	1,299	1,933	2,687
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	65	77	(39)	0	0
Reported net profit	7,906	1,607	3,583	5,501	7,647
Adjustments	0	0	0	0	0
Adjusted net profit	7,906	1,607	3,583	5,501	7,647

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Accounts payables	7,107	10,512	9,585	9,335	10,153
Other current liabilities	5,921	3,858	5,378	6,195	6,992
Provisions	1,016	1,183	1,354	1,490	1,639
Debt funds	22,074	27,162	31,013	34,114	37,526
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	44,947	48,267	54,904
Shareholders' fund	40,487	41,156	46,025	49,345	55,982
Total liab. and equities	76,604	83,870	93,355	100,480	112,291
Cash and cash eq.	485	1,417	1,505	2,190	3,488
Accounts receivables	15,804	16,629	20,072	20,368	24,903
Inventories	16,848	18,454	19,365	19,859	21,071
Other current assets	3,374	3,002	4,265	3,717	4,894
Investments	499	1,240	2,333	2,566	2,822
Net fixed assets	31,494	36,247	38,576	44,040	46,873
CWIP	5,508	4,228	4,584	5,084	5,584
Intangible assets	2,592	2,653	2,656	2,656	2,656
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	76,604	83,870	93,355	100,480	112,291

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25A	FY26E	FY27E
Cash flow from operations	7,798	4,902	3,032	10,498	7,653
Capital expenditures	(10,492)	(6,783)	(6,410)	(10,000)	(8,000)
Change in investments	(191)	(741)	(1,093)	(233)	(257)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(10,683)	(7,524)	(7,503)	(10,233)	(8,257)
Equities issued/Others	3	1	0	0	0
Debt raised/repaid	1,301	5,087	3,852	3,101	3,411
Interest expenses	5	2	0	0	0
Dividends paid	(1,010)	(539)	(808)	(1,011)	(1,011)
Other financing cash flows	2,312	(997)	1,516	(1,670)	(500)
Cash flow from financing	2,610	3,554	4,559	421	1,901
Chg in cash & cash eq.	(275)	932	88	686	1,297
Closing cash & cash eq.	485	1,417	1,505	2,190	3,488

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25A	FY26E	FY27E
Reported EPS	14.7	3.0	6.7	10.3	14.3
Adjusted EPS	14.7	3.0	6.7	10.3	14.3
Dividend per share	1.5	0.8	1.2	1.5	1.5
Book value per share	75.2	76.6	83.3	91.7	104.1

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25A	FY26E	FY27E
EV/Sales	6.0	7.3	6.7	6.1	5.4
EV/EBITDA	22.9	47.4	35.2	26.9	21.6
Adjusted P/E	43.8	215.5	96.7	63.0	45.3
P/BV	8.6	8.4	7.7	7.0	6.2

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25A	FY26E	FY27E
Tax burden (Net profit/PBT)	71.3	67.9	74.0	74.0	74.0
Interest burden (PBT/EBIT)	87.5	60.2	77.5	79.1	83.9
EBIT margin (EBIT/Revenue)	21.0	7.8	11.3	15.2	17.6
Asset turnover (Rev./Avg TA)	25.8	19.3	19.1	19.3	19.8
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.7	1.7	1.7
Adjusted ROAE	21.4	3.9	8.3	11.7	14.6

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25A	FY26E	FY27E
YoY growth (%)					
Revenue	22.4	(16.6)	10.2	11.5	12.9
EBITDA	11.9	(51.2)	35.7	32.1	25.4
Adjusted EPS	(4.6)	(79.7)	122.9	53.5	39.0

Profitability & Return ratios (%)

EBITDA margin	26.4	15.4	19.0	22.5	25.0
EBIT margin	21.0	7.8	11.3	15.2	17.6
Adjusted profit margin	13.1	3.2	6.5	8.9	10.9
Adjusted ROAE	21.4	3.9	8.3	11.7	14.6
ROCE	21.8	6.4	9.6	12.1	14.3

Working capital days (days)

Receivables	95	120	132	120	130
Inventory	102	134	127	117	110
Payables	43	76	63	55	53

Ratios (x)

Gross asset turnover	1.3	0.9	0.9	0.9	0.9
Current ratio	2.6	2.5	2.8	2.7	2.9
Net interest coverage ratio	7.7	2.1	2.9	4.1	5.3
Adjusted debt/equity	0.5	0.6	0.7	0.6	0.6

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

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BUY – Expected return >+15%

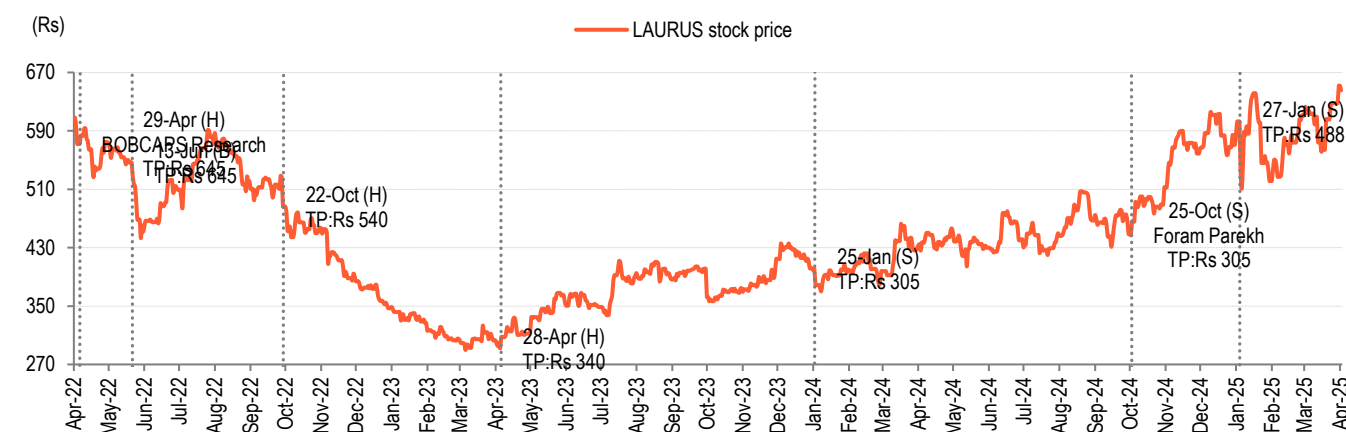
HOLD – Expected return from -6% to +15%

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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