

SELL
 TP: Rs 305 | ▼ 24%

LAURUS LABS

| Pharmaceuticals

| 25 January 2024

Challenges galore – cut to SELL

- Fourth straight quarterly miss with upsets on all fronts; Q3 revenue/ EBITDA well short of Bloomberg consensus by 13%/79%
- EBITDA margin held sequentially at 15.2% but dropped 10ppt from last year; management expects a better Q4
- TP revised to Rs 305 (vs. Rs 340) as we cut FY24-FY25 EBITDA 30-36% and roll valuations over; downgrade from HOLD to SELL

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CDMO business continues to decline, price erosion in ARV persists: Laurus posted disappointing 9MFY24 results owing to a steep fall in CDMO revenue, price erosion in the ARV portfolio, and operational deleverage from higher upfront cost toward capex and R&D projects. 9M revenue fell 23% YoY and PAT plunged 88% YoY, with Q3 net income down 89% – marking the fourth successive quarter of profit contraction in excess of 50%. FDF business provided some respite as growth revived to 47% YoY (+11% QoQ). API business declined 9% YoY though oncology API grew 14%. We build in revenue growth of 13%/11% for FY25/FY26.

Negative operating leverage saps margin: Gross margin improved 90bps YoY and 180bps QoQ, but the steady decline in high-margin CDMO revenue together with higher operating costs from recently commissioned projects saw EBITDA margin plummet 10ppt YoY to 15.2% (stable QoQ). Management expects the operating margin to have bottomed out in Q3 and anticipates a better fourth quarter. We reduce our FY24/FY25 EBITDA margin estimates 550bps/450bps to 17%/20%.

Earnings call highlights: (1) Laurus incurred capex of Rs 5.8bn in 9MFY24 (16% of revenue). (2) CDMO capex of US\$ 100mn+ is on track, supported by a strong business pipeline. (3) Increased working capital needs because of inventory build-up saw operating cash flow decline to Rs 3.7bn in 9M vs. Rs 4.7bn in H1FY24. (4) Integrated capability expansion is on track and the animal health unit has started commercial validation supplies.

Downgrade to SELL: We introduce FY26 estimates for Laurus and pare our FY24/FY25 EBITDA projections by 36%/30% given the company’s struggle on the revenue as well as margin fronts. Upon rolling valuations over to FY26E, our TP stands revised to Rs 305 (from Rs 340), based on an unchanged target EV/EBITDA multiple of 12x- implied PE of 25x. Considering the continued deterioration in operational performance, we downgrade the stock to SELL from HOLD.

Key changes

Target	Rating
▼	▼

Ticker/Price	LAURUS IN/Rs 401
Market cap	US\$ 2.6bn
Free float	74%
3M ADV	US\$ 8.8mn
52wk high/low	Rs 445/Rs 279
Promoter/FPI/DII	27%/23%/5%

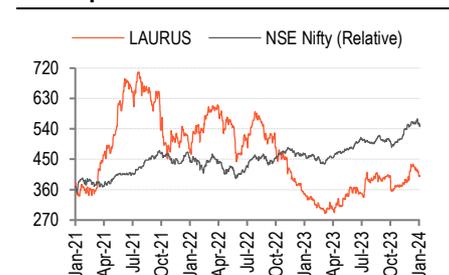
Source: NSE | Price as of 24 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	60,410	53,206	60,041
EBITDA (Rs mn)	15,926	9,045	12,008
Adj. net profit (Rs mn)	7,906	2,701	4,497
Adj. EPS (Rs)	14.7	5.0	8.4
Consensus EPS (Rs)	14.7	4.5	10.6
Adj. ROAE (%)	21.4	6.6	10.3
Adj. P/E (x)	27.2	79.7	47.8
EV/EBITDA (x)	14.6	26.1	19.7
Adj. EPS growth (%)	(4.6)	(65.8)	66.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Net Sales	11,949	15,448	(22.6)	12,245	(2.4)	36,012	46,597	(22.7)
EBITDA	1,814	4,036	(55.0)	1,879	(3.4)	5,360	13,067	(59.0)
Depreciation	984	844	16.5	934	-	2,823	2,371	-
EBIT	830	3,191	-	945	-	2,537	10,696	-
Interest	508	427	-	424	-	1,324	1,121	-
Other Income	24	14	-	18	-	78	43	-
PBT	346	2,779	(87.5)	539	(35.8)	1,291	9,618	(86.6)
Less: Taxation	95	748	(87.4)	146	-	362	2,724	-
Less: Minority Interest	20	0	-	24	-	80	23	-
Recurring PAT	231	2,030	(88.6)	370	(37.4)	849	6,871	(87.6)
Exceptional items	0	0	-	0	-	0	0	-
Reported PAT	231	2,030	(88.6)	370	(37.4)	849	6,871	(87.6)
Key Ratios (%)								
Gross Margin	54.4	53.4	92bps	52.5	181bps	52.5	55.4	(286)
EBITDA Margin	15.2	26.1	(1,094bps)	15.3	(16bps)	14.9	28.0	(1,316)
Tax / PBT	27.3	26.9	-	27.0	-	28.0	28.3	-
Net Profit Margin	1.9	13.1	(1,121bps)	3.0	(108bps)	2.4	14.7	(1,239)
EPS (Rs)	0.4	3.8	(88.6)	0.7	(37.4)	1.6	1.6	(0.2)

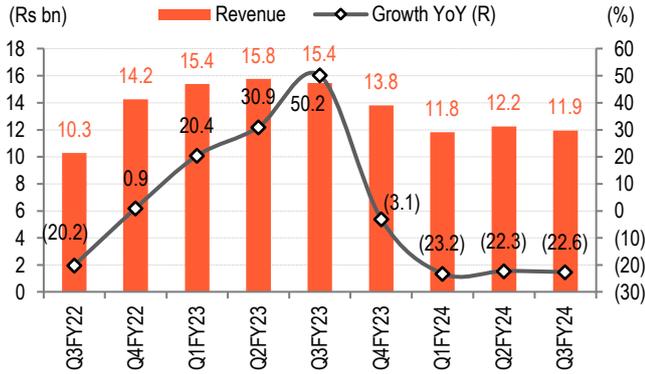
Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs Mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Generics – API	5,740	6,320	(9.2)	6,290	(8.7)	18,000	18,950	(5.0)
ARVs	3501	3,729	(6.1)	3,711	(5.7)	11,272	11,592	(2.8)
Oncology	861	758	13.5	1,195	(28.0)	2,593	1,910	35.8
Other API	1,378	1,833	(24.8)	1,384	(0.4)	4,135	5,449	(24.1)
Synthesis	2,120	6,420	(67.0)	2,240	(5.4)	6,860	19,390	(64.6)
Formulations	3,670	2,490	47.4	3,320	10.5	9,840	7,470	31.7
Bio	420	220	90.9	390	7.7	1,310	790	65.8
Net Sales	11,949	15,455	(22.7)	12,239	(2.4)	36,010	46,600	(22.7)

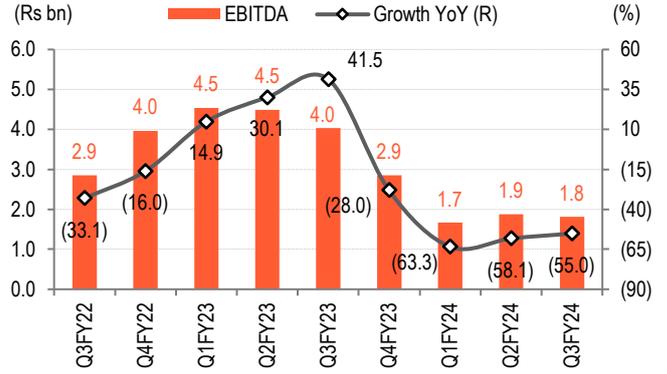
Source: Company, BOBCAPS Research

Fig 3 – Revenue



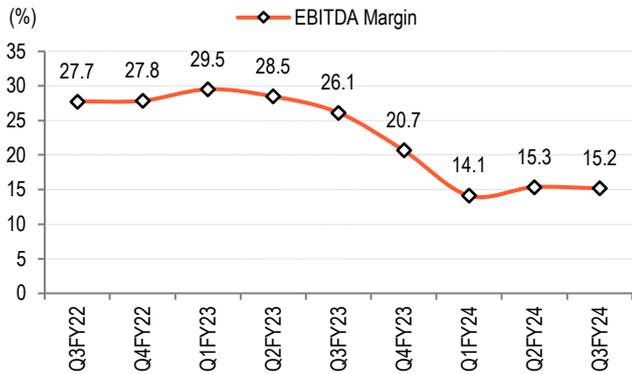
Source: Company, BOBCAPS Research

Fig 4 – EBITDA



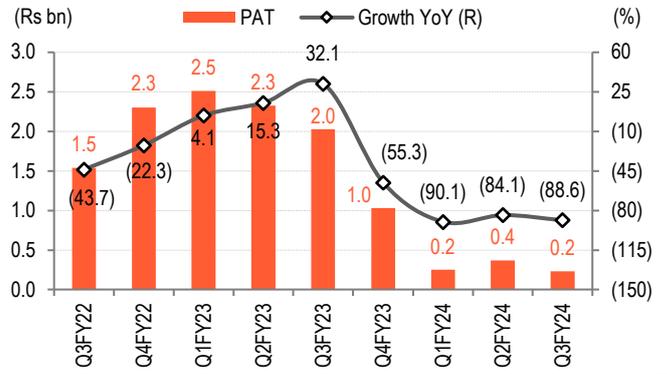
Source: Company, BOBCAPS Research

Fig 5 – EBITDA margin



Source: Company, BOBCAPS Research

Fig 6 – PAT



Source: Company, BOBCAPS Research

Valuation methodology

We introduce FY26 estimates for Laurus and pare our FY24/FY25 EBITDA projections by 36%/30% given the company's struggle on the revenue as well as margin fronts. Upon rolling valuations over to FY26E, our TP stands revised to Rs 305 (from Rs 340), based on an unchanged target EV/EBITDA multiple of 12x –implied PE of 25x. Considering the continued deterioration in operational performance, we downgrade the stock to SELL from HOLD.

Fig 7 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	53.2	60.0	66.5	62.7	69.5	-	(15.2)	(13.6)	-
EBITDA	9.0	12.0	15.3	14.1	17.0	-	(35.9)	(29.5)	-
EBITDA margin (%)	17.0	20.0	23.0	22.5	24.5	-	(550bps)	(450bps)	-
EPS (Rs)	5.0	8.4	12.3	12.1	15.7	-	(58.4)	(46.6)	-

Source: BOBCAPS Research

Fig 8 – Key assumptions

Revenue (Rs bn)	FY23	FY24E	FY25E	FY26E
Generic APIs	26.1	25.4	28.4	31.3
Generic FDF	11.4	13.5	15.5	17.0
Synthesis (CDMO)	21.7	12.6	14.1	15.8
Biotech	1.3	1.8	2.1	2.4

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.

Glossary

Glossary of Abbreviations			
API	Active Pharmaceutical Ingredients	CMO	Contract Manufacturing Organization Services
ARV	Antiretrovirals	FDF	Finished Dosage Form Division
Bio	Biotechnology Division	GMP	Good Manufacturing Practice
CDMO	CDMO Synthesis Division		

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	49,360	60,410	53,206	60,041	66,516
EBITDA	14,229	15,926	9,045	12,008	15,299
Depreciation	2,515	3,241	3,796	4,396	4,996
EBIT	11,714	12,686	5,249	7,612	10,303
Net interest inc./(exp.)	(1,024)	(1,652)	(1,656)	(1,656)	(1,656)
Other inc./(exp.)	153	60	106	120	133
Exceptional items	0	0	0	0	0
EBT	10,843	11,094	3,700	6,077	8,780
Income taxes	2,514	3,123	999	1,580	2,195
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	45	65	0	0	0
Reported net profit	8,284	7,906	2,701	4,497	6,585
Adjustments	0	0	0	0	0
Adjusted net profit	8,284	7,906	2,701	4,497	6,585

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	8,764	7,107	9,475	10,692	11,845
Other current liabilities	5,661	5,921	5,321	6,004	6,652
Provisions	892	1,016	894	1,009	1,118
Debt funds	20,774	22,074	22,074	22,074	22,074
Other liabilities	0	0	0	0	0
Equity capital	1,075	1,075	1,075	1,075	1,075
Reserves & surplus	32,516	39,409	41,121	44,611	50,188
Shareholders' fund	33,591	40,484	42,196	45,685	51,263
Total liab. and equities	69,680	76,601	79,960	85,465	92,952
Cash and cash eq.	759	482	1,663	1,663	2,274
Accounts receivables	13,542	15,804	14,577	16,450	18,223
Inventories	17,603	16,848	16,763	16,450	18,223
Other current assets	2,811	3,374	2,660	3,002	3,326
Investments	308	499	499	499	499
Net fixed assets	23,953	31,494	35,698	39,302	42,306
CWIP	8,132	5,508	5,508	5,508	5,508
Intangible assets	2,571	2,592	2,592	2,592	2,592
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	69,680	76,601	79,960	85,465	92,952

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	8,118	7,798	10,170	9,008	9,619
Capital expenditures	(6,416)	(10,492)	(8,000)	(8,000)	(8,000)
Change in investments	(274)	(191)	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(6,690)	(10,683)	(8,000)	(8,000)	(8,000)
Equities issued/Others	2	0	0	0	0
Debt raised/repaid	4,975	1,301	0	0	0
Interest expenses	0	5	0	0	0
Dividends paid	(1,008)	(1,008)	(1,008)	(1,008)	(1,008)
Other financing cash flows	(5,122)	2,310	19	0	0
Cash flow from financing	(1,153)	2,608	(989)	(1,008)	(1,008)
Chg in cash & cash eq.	275	(277)	1,181	0	611
Closing cash & cash eq.	759	482	1,663	1,663	2,274

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	15.4	14.7	5.0	8.4	12.3
Adjusted EPS	15.4	14.7	5.0	8.4	12.3
Dividend per share	1.5	1.5	1.5	1.5	1.5
Book value per share	62.5	75.2	78.4	84.9	95.3

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	4.6	3.9	4.4	3.9	3.5
EV/EBITDA	16.1	14.6	26.1	19.7	15.4
Adjusted P/E	26.0	27.2	79.7	47.8	32.7
P/BV	6.4	5.3	5.1	4.7	4.2

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	76.4	71.3	73.0	74.0	75.0
Interest burden (PBT/EBIT)	92.6	87.5	70.5	79.8	85.2
EBIT margin (EBIT/Revenue)	23.7	21.0	9.9	12.7	15.5
Asset turnover (Rev./Avg TA)	25.7	25.8	21.0	22.7	23.6
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.5	1.5	1.5
Adjusted ROAE	27.8	21.4	6.6	10.3	13.6

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	2.5	22.4	(11.9)	12.8	10.8
EBITDA	(7.2)	11.9	(43.2)	32.8	27.4
Adjusted EPS	(14.3)	(4.6)	(65.8)	66.5	46.4
Profitability & Return ratios (%)					
EBITDA margin	28.8	26.4	17.0	20.0	23.0
EBIT margin	23.7	21.0	9.9	12.7	15.5
Adjusted profit margin	16.8	13.1	5.1	7.5	9.9
Adjusted ROAE	27.8	21.4	6.6	10.3	13.6
ROCE	24.7	21.8	8.4	11.7	14.8
Working capital days (days)					
Receivables	100	95	100	100	100
Inventory	130	102	115	100	100
Payables	65	43	65	65	65
Ratios (x)					
Gross asset turnover	1.4	1.3	1.0	1.0	0.9
Current ratio	2.3	2.6	2.3	2.1	2.1
Net interest coverage ratio	11.4	7.7	3.2	4.6	6.2
Adjusted debt/equity	0.6	0.5	0.5	0.4	0.4

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

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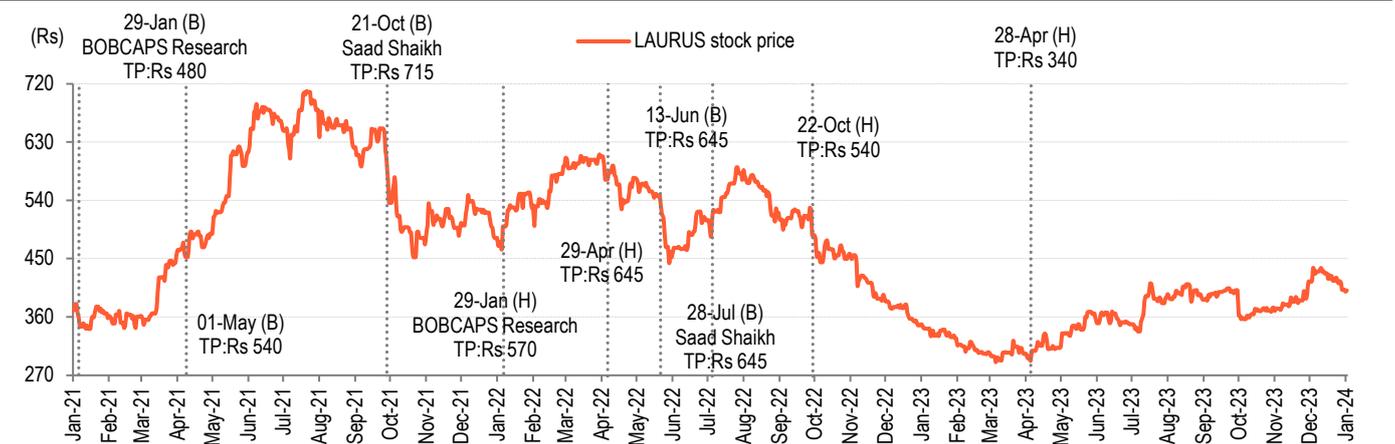
HOLD – Expected return from -6% to +15%

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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