

HOLD

TP: Rs 645 | ▲ 11%

LAURUS LABS

| Pharmaceuticals

| 29 April 2022

Mixed Q4; non-ARV business guided to drive \$1bn in sales

- Q4 topline growth 14% ahead of consensus as healthy CDMO, FDF and non-ARV API sales offset decline in ARV business
- Better product mix overshadowed by negative operating leverage and higher RM/solvent cost, affecting margins
- TP revised to Rs 645 (vs. Rs 570) as we raise FY23/FY24 revenue estimates by 16% each to bake in the Q4 beat; maintain HOLD

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Sales beat estimates: Laurus's Q4FY22 revenue grew 1% YoY (+39% QoQ), coming in 14% ahead of consensus led by traction in CDMO, non-ARV generics and APIs. CDMO grew 105% YoY due to a large purchase order in Q4 for a recently launched molecule. Oncology/other API rose 13%/4% YoY (-17%/+27% QoQ). FDF business grew 14% YoY (32% QoQ) due to healthy sales in developed markets supported by steady market share gains in the existing portfolio. While Q4 growth came mainly from non-ARV business, ARV sales showed signs of normalising with 46% QoQ growth. Management has guided for US\$ 1bn in revenue for FY23 driven by non-ARV sales.

Strong momentum in CDMO: Laurus's CDMO business continued to deliver strong growth (+105% YoY) as it made good progress on existing projects and started supplies to a global life sciences company for the aforementioned purchase order of its newly launched molecule. Management expects to ink a long-term contract for this molecule which will benefit Laurus in FY23 and FY24. The company believes its CDMO capability expansion positions it well to capture new opportunities.

RM and solvent availability plus cost inflation weigh down margins: Despite a better product mix marked by higher CDMO sales and lower ARV sales, gross/EBITDA margins contracted 350bps/560bps YoY (-670bps/flat QoQ) to 52%/27.8% in Q4 due to raw material/solvent cost inflation, pricing pressure and higher logistics cost.

Maintain HOLD; TP increased to Rs 645: We raise our FY23/FY24 revenue estimates by 16% each and EBITDA estimates by 12% each to factor in the strong growth in CDMO, FDF and non-ARV APIs in Q4, coupled with management's robust sales guidance. We retain HOLD on Laurus with a revised TP of Rs 645 (Rs 570 earlier), based on an unchanged 17x FY24E EV/EBITDA multiple.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	LAURUS IN/Rs 583
Market cap	US\$ 4.1bn
Free float	74%
3M ADV	US\$ 16.2mn
52wk high/low	Rs 724/Rs 440
Promoter/FPI/DII	27%/23%/5%

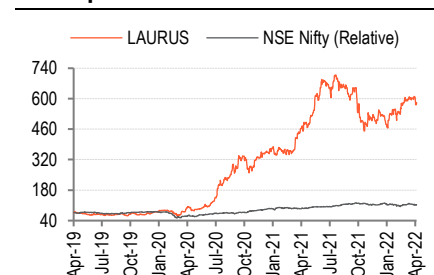
Source: NSE | Price as of 29 Apr 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	49,360	63,206	73,090
EBITDA (Rs mn)	14,229	17,698	21,196
Adj. net profit (Rs mn)	8,284	10,071	11,799
Adj. EPS (Rs)	15.4	18.8	22.0
Consensus EPS (Rs)	15.4	21.1	26.1
Adj. ROAE (%)	27.8	26.5	24.6
Adj. P/E (x)	37.8	31.1	26.5
EV/EBITDA (x)	22.9	18.7	15.7
Adj. EPS growth (%)	(14.3)	21.6	17.2

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Net Sales	14,248	14,119	0.9	10,288	38.5	49,356	48,135	2.5
EBITDA	3,967	4,722	(16.0)	2,853	39.1	14,224	15,507	(8.3)
Depreciation	657	536	-	640	-	2,515	2,051	-
EBIT	3,310	4,186	-	2,213	-	11,709	13,456	-
Interest	306	219	-	231	-	1,024	682	-
Other Income	13	45	-	53	-	153	236	-
PBT	3,017	4,012	(24.8)	2,035	48.3	10,839	13,011	(16.7)
Less: Taxation	698	1,043	-	485	-	2,514	3,173	-
Less: Minority Interest	10	0	-	12	-	22	0	-
Recurring PAT	2,309	2,969	(22.2)	1,538	50.1	8,302	9,839	(15.6)
Exceptional items	0	0	-	0	-	0	0	-
Reported PAT	2,309	2,969	(22.2)	1,538	50.1	8,302	9,839	(15.6)
Key Ratios (%)			(bps)		(bps)			(bps)
Gross Margin	52.0	55.5	(349)	58.8	(674)	55.6	55.2	39
EBITDA Margin	27.8	33.4	(560)	27.7	11	28.8	32.2	(340)
Tax / PBT	23.1	26.0	-	23.8	-	23.2	24.4	-
NPM	16.2	21.0	(483)	14.9	126	16.8	20.4	(362)
EPS (Rs)	4.30	5.5	(22.2)	2.9	50.3	15.4	18.3	(15.7)

Source: Company, BOBCAPS Research

Fig 2 – Revenue mix

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Generics – API	5,390	7,970	(32.4)	4,240	27.1	20,390	26,210	(22.2)
ARVs	2,965	5,690	(47.9)	2,035	45.7	12,490	18,520	(32.6)
Oncology	701	620	13.0	848	(17.4)	2,890	2,630	9.9
Other API	1,725	1,660	3.9	1,357	27.1	5,010	5,060	(1.0)
Synthesis	3,600	1,760	104.5	2,070	73.9	9,170	5,190	76.7
Formulations	4,910	4,300	14.2	3,730	31.6	18,800	16,640	13.0
Bio	350	-	-	250	40.0	1,000	-	-
Net Sales	14,250	14,030	1.6	10,290	38.5	49,360	48,040	2.7

Source: Company, BOBCAPS Research

Earnings call highlights

- **Revenue:** Management expects to achieve US\$ 1bn in sales by FY23 supported by several anticipated approvals and good progress made on multi-site capacity expansion across divisions, including CDMO.
- **Margins:** Despite a better product mix marked by higher CDMO sales and lower ARV sales, Q4FY22 margins were hit by RM/solvent cost inflation, pricing pressure and higher logistics cost.
- **CDMO business:** Sustained new client addition and increased business from existing customers were key growth drivers for Q4 and FY22. Laurus secured a fresh purchase order from a global life science major in Q4 and supplies for the molecule have commenced. Capex on a multi-year CDMO contract (signed in Q2) is also on the fast-track.
- **Capex:** Laurus incurred capex of Rs 9.5bn in FY22 and plans to invest a further Rs 20bn-22bn over FY23-FY24.
- **Capacity:** Brownfield capacity expansion at Unit 2 (to add 4bn units) is on track and scheduled to be commercialised by Q1FY23.
- **Approvals:** The company received three approvals in Q4 and five in FY22.
- **Laurus Bio:** Revenues of subsidiary Laurus Bio improved over 40% QoQ to Rs 350mn in Q4 as new capacities became operational. Management sees scope for further scale-up in ensuing quarters and indicated that the demand outlook remains strong.

Valuation methodology

In light of Laurus's strong performance in CDMO, FDF and non-ARV API business in Q4FY22, together with confidence shown by the management in achieving US\$ 1bn in sales by FY23, we raise our FY23/FY24 revenue estimates by 16% each and EBITDA by 12% each. Our TP thus stands revised to Rs 645 (Rs 570 earlier), based on an unchanged 17x FY24E EV/EBITDA multiple.

Laurus continues to struggle due to high industry-wide channel inventory and slower demand for ARV formulations and APIs, though the 46% QoQ growth in its Q4FY22 ARV API sales hints at some demand normalisation. The company is investing Rs 20bn-22bn over FY23-FY24 to expand capacity in the CDMO/non-ARV business. While we are positive on prospects of the non-ARV portfolio, we believe the benefits would be back-ended. We thus retain our HOLD rating.

Fig 3 – Revised estimates

(Rs bn)	New			Old		Change (%)	
	FY22A	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	49.4	63.2	73.1	46.7	54.4	16.2	16.5
EBITDA	14.2	17.7	21.2	13.5	15.8	12.2	12.6
EBITDA Margin (%)	28.8	28.0	29.0	29.0	29.0	(100bps)	(100bps)
EPS (Rs)	15.4	18.8	22.0	14.5	16.7	12.1	8.8

Source: BOBCAPS Research

Fig 4 – Key assumptions

Revenue (Rs bn)	FY22A	FY23E	FY24E
Generic APIs	20.4	23.8	26.1
Generic FDF	18.8	22.9	27.5
Synthesis (CDMO)	9.2	15.1	17.9
Biotech	1.0	1.4	1.7

Source: Company, BOBCAPS Research

Fig 5 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	EBITDA CAGR FY21-24E (%)	EV/EBITDA (Rs)		ROE (%)		Target EV/EBITDA (x)
					FY23E	FY24E	FY23E	FY24E	
Divi's Labs	DIVI IN	BUY	5,250	17.1	27.3	23.4	25.9	25.9	27
Laurus Labs	LAURUS IN	HOLD	645	11.0	18.7	15.6	26.5	24.6	17

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- **Higher concentration and pricing pressure in ARVs:** Laurus draws significant revenue from the ARV business. A slowdown in demand or pricing pressure in ARVs will significantly impact revenues and margins.
- **Regulatory risks:** Units 1 and 3 are critical as they account for 80% of the topline (mainly catering to the API and synthesis businesses). Unit 2 is Laurus' sole US formulations facility.

- **Delay in formulation business ramp-up:** Any delays in product approval can adversely affect the planned scale-up and hence our forecasts for the formulations business.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Ajanta Pharma	AJP IN	2.0	1,721	2,655	BUY
Alembic Pharma	ALPM IN	2.0	781	905	BUY
Alkem Labs	ALKEM IN	5.1	3,250	4,000	BUY
Aurobindo Pharma	ARBP IN	4.8	629	850	BUY
Cipla	CIPLA IN	10.3	981	1,200	BUY
Divi's Labs	DIVI IN	15.7	4,505	5,250	BUY
Dr Reddy's Labs	DRRD IN	9.0	4,132	4,700	HOLD
Eris Lifesciences	ERIS IN	1.2	681	890	BUY
Laurus Labs	LAURUS IN	4.1	583	645	HOLD
Lupin	LPC IN	4.4	745	800	HOLD
Sun Pharma	SUNP IN	29.2	929	1,100	BUY

Source: BOBCAPS Research, NSE | Price as of 29 Apr 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Total revenue	28,317	48,135	49,360	63,206	73,090
EBITDA	5,658	15,331	14,229	17,698	21,196
Depreciation	1,873	2,051	2,515	3,145	4,120
EBIT	3,785	13,280	11,714	14,553	17,076
Net interest inc./(exp.)	(896)	(682)	(1,024)	(1,246)	(1,454)
Other inc./(exp.)	59	237	153	122	110
Exceptional items	0	0	0	0	0
EBT	2,948	12,835	10,843	13,429	15,732
Income taxes	383	3,173	2,514	3,357	3,933
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	2	45	0	0
Reported net profit	2,565	9,660	8,284	10,071	11,799
Adjustments	0	0	0	0	0
Adjusted net profit	2,565	9,660	8,284	10,071	11,799

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	6,156	11,787	8,764	12,987	14,017
Other current liabilities	1,625	3,158	5,661	3,792	5,116
Provisions	568	757	892	1,142	1,320
Debt funds	11,456	15,799	20,774	20,774	20,774
Other liabilities	0	0	0	0	0
Equity capital	1,069	1,073	1,075	1,075	1,075
Reserves & surplus	16,623	24,934	32,516	41,604	52,423
Shareholders' fund	17,692	26,007	33,591	42,679	53,498
Total liab. and equities	37,497	57,507	69,680	81,374	94,725
Cash and cash eq.	17	485	759	336	1,788
Accounts receivables	7,914	13,061	13,542	17,143	19,824
Inventories	9,052	15,755	17,603	19,914	22,027
Other current assets	2,545	2,845	2,811	3,160	4,385
Investments	34	34	308	308	308
Net fixed assets	17,068	19,150	23,953	30,808	36,689
CWIP	672	3,622	8,132	7,132	7,132
Intangible assets	195	2,556	2,571	2,571	2,571
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	37,497	57,507	69,680	81,374	94,725

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Cash flow from operations	2,474	6,914	8,118	9,560	12,432
Capital expenditures	(2,374)	(7,000)	(9,500)	(10,000)	(10,000)
Change in investments	0	0	(274)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(2,374)	(7,000)	(9,774)	(10,000)	(10,000)
Equities issued/Others	5	4	2	0	0
Debt raised/repaid	388	4,343	4,975	0	0
Interest expenses	0	0	0	0	0
Dividends paid	0	(1,006)	(1,008)	(1,008)	(1,008)
Other financing cash flows	(506)	(2,787)	(2,038)	1,024	27
Cash flow from financing	(113)	554	1,931	17	(981)
Chg in cash & cash eq.	(13)	468	275	(423)	1,452
Closing cash & cash eq.	17	485	759	336	1,788

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	4.8	18.0	15.4	18.8	22.0
Adjusted EPS	4.8	18.0	15.4	18.8	22.0
Dividend per share	1.5	1.5	1.5	1.5	1.5
Book value per share	33.0	48.4	62.5	79.3	99.5

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	11.4	6.7	6.6	5.2	4.6
EV/EBITDA	57.2	21.2	22.9	18.7	15.7
Adjusted P/E	122.0	32.4	37.8	31.1	26.5
P/BV	17.7	12.1	9.3	7.4	5.9

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	87.0	75.3	76.4	75.0	75.0
Interest burden (PBT/EBIT)	77.9	96.6	92.6	92.3	92.1
EBIT margin (EBIT/Revenue)	13.4	27.6	23.7	23.0	23.4
Asset turnover (Rev./Avg TA)	25.4	33.9	25.7	26.8	26.5
Leverage (Avg TA/Avg Equity)	1.7	1.6	1.6	1.5	1.4
Adjusted ROAE	15.4	44.2	27.8	26.5	24.6

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
YoY growth (%)					
Revenue	23.6	70.0	2.5	28.1	15.6
EBITDA	58.1	171.0	(7.2)	24.4	19.8
Adjusted EPS	168.0	276.6	(14.3)	21.6	17.2
Profitability & Return ratios (%)					
EBITDA margin	20.0	31.9	28.8	28.0	29.0
EBIT margin	13.4	27.6	23.7	23.0	23.4
Adjusted profit margin	9.1	20.1	16.8	15.9	16.1
Adjusted ROAE	15.4	44.2	27.8	26.5	24.6
ROCE	13.8	38.1	24.7	24.9	25.0
Working capital days (days)					
Receivables	102	99	100	99	99
Inventory	117	119	130	115	110
Payables	79	89	65	75	70
Ratios (x)					
Gross asset turnover	1.2	1.6	1.2	1.3	1.2
Current ratio	2.3	2.0	2.3	2.3	2.3
Net interest coverage ratio	4.2	19.5	11.4	11.7	11.7
Adjusted debt/equity	0.6	0.6	0.6	0.5	0.4

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

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

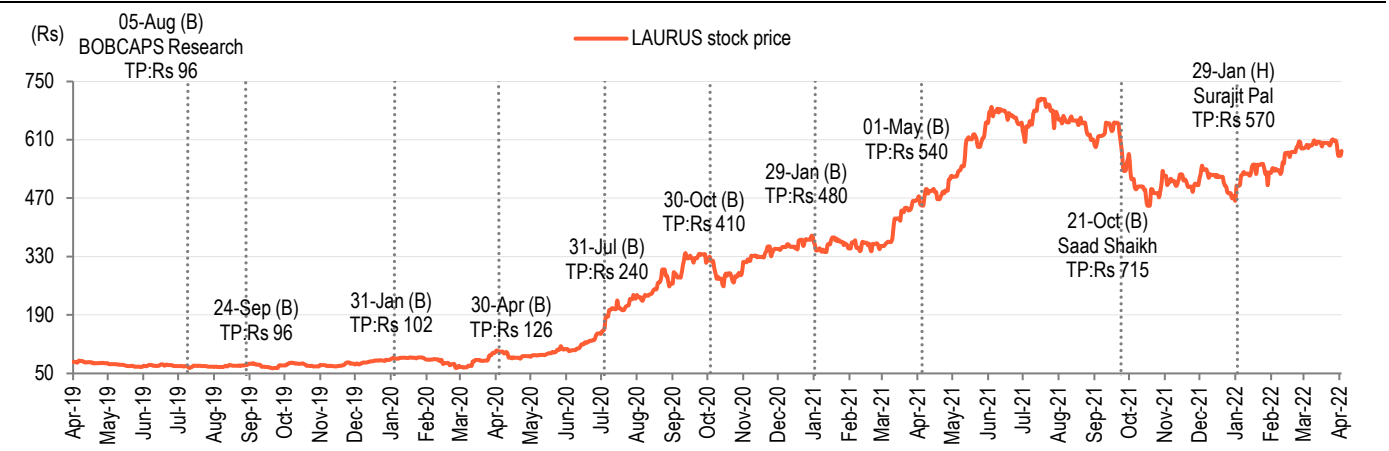
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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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