

## Laurus Labs Ltd

Synthesis business dragged the margins, but strong formulation business will support growth

Laurus Labs's Q3FY23 performance was below expectations on all counts. Revenue was below estimates as growth in formulations business was offset by lower revenue of synthesis and API business. As Synthesis is a high margin business for the company, so lower revenue from this segment will lead to decline in EBITDA margins going ahead. The near-term headwinds such as pricing pressure in ARV business and inflation around RM prices will stay for near term. Hence, we cut our EPS estimate by 25% and 11% for FY24E and FY25E respectively and hence we have revised our target price downwards to Rs. 390 per share. We have changed our rating from Buy to Accumulate.

### Lower revenue Synthesis business dragged the overall performance

- During the quarter, the company posted poor performance in its synthesis business which has witnessed growth of 210% YoY but has seen decline of 11% QoQ mainly due to lower sales Pfizer's Paxlovid business. The company is actively working on over 60 projects and on-going supplies for four commercial projects.
- Going ahead, we expect Pfizer revenue to taper off which will lead to revenue contribution from the synthesis business, thus leading to decline in EBITDA margins. We expect revenue contribution from the synthesis business to decrease from 40% in FY23E to 35% in FY25E.

### Formulation business resumed back to growth

- Formulations business witnessed a decline of 33% YoY but has seen an improvement of 67% QoQ during Q3FY23. The YoY decline was due to less procurement from Global agencies and adverse pricing in ARV business. **However, the company has secured a supply agreement with Global Fund for ARV drugs for FY23-FY25.**

### API business struggled for growth

- The company's API business has shown growth of 49% YoY but has seen 7% decline on sequential basis driven by lower sales from Oncology API.

### Valuation:

The synthesis business which is a high margin business for the company (Margin of 35%+) will witness decline in sales due to lower Paxlovid sales. Since, demand for covid medicines is reducing, this will impact the margin of the company. Also, the ARV formulations business is a laggard which will further drag the performance. Hence, we cut EPS estimate for FY24E and FY25E. Based on SOTP valuation, we arrive at a target price of 390, offering 14% upside from current levels. **Accumulate.**

Y/E Mar (Rs mn)	Q3 FY23	Q3 FY22	YoY (%)	Q2 FY23	QoQ (%)	Q3 FY23E	Var. (%)
Revenues	15,448	10,288	50.2%	15,759	-2.0%	17,000	-9.1%
Gross profit margin (%)	53.4%	58.8%	(535) bps	55.1%	(168) bps		
Employee expense	1474	1220	20.8%	1470	0.2%		
Other expense	2745	1975	39.0%	2726	0.7%		
EBITDA	4,036	2,853	41.5%	4,489	-10.1%	4,900	-17.6%
EBITDA Margin (%)	26.1%	27.7%	(161) bps	28.5%	(236) bps	28.8%	(270) bps
Depreciation	844	640	31.9%	818	3.2%		
Interest	427	231	84.9%	401	6.5%		
Other Income	14	53	-73.2%	11	28.8%		
PBT	2,778	2,035	36.5%	3,281	-15.3%		
Tax	748	485	54.1%	942.7	-20.7%		
Effective Tax Rate (%)	26.9%	23.8%	307 bps	28.7%	(182) bps		
PAT	2,030	1,550	31.0%	2,338	-13.1%		
Minority Interest & share of associates	0	12	NA	10	NA		
Consolidated PAT	2,030	1,537	32.1%	2,328	-12.8%	2,900	-30.0%

Source: Company, SMIFS research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	PAT (%)	RoE (%)	RoCE (%)	P/E(x)	EV/EBITDA (x)
FY21	48,135	70.0%	15,507	32.2%	9,836	20.4%	45.0%	24.8%	13.3	7.4
FY22	49,356	2.5%	14,224	28.8%	8,275	16.8%	27.8%	17.7%	36.5	20.1
FY23E	62,384	2.5%	17,159	27.5%	9,152	14.7%	24.3%	16.6%	20.1	9.6
FY24E	63,079	26.4%	16,763	26.6%	8,843	14.0%	19.3%	13.7%	20.8	9.7
FY25E	74,200	1.1%	20,238	27.3%	10,861	14.6%	19.9%	14.2%	16.9	7.9

Source: Company, SMIFS research estimates



Rating: Accumulate Upside/(Downside): 14%  
Current Price: 342 Target Price: 390

### Earlier recommendation

Previous Rating: Buy  
Previous Target Price: 550

### Market data

Bloomberg:	LAURUS IN
52-week H/L (Rs):	626 / 337
Mcap (Rs bn/USD bn):	184/2.2
Shares outstanding (mn):	534.3
Free float:	73.0%
Avg. Daily Vol. (3M Avg.):	0.7 Mn
Face Value (Rs):	2

Source: Bloomberg, SMIFS research

### Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	27.2	27.2	27.2	27.2
FIIIs	21.9	22.6	21.9	22.4
DIIIs	9.5	9.3	9.3	7.9
Public/others	41.4	40.9	41.6	42.5

### Promoter pledging (%)

Pledging	0.0	0.0	0.0	0.0
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Source: BSE

### Price performance (%) \*

YE Mar (R)	1M	3M	12M	36M
NIFTY 50	-2.5	-0.7	3.2	46.6
NIFTY 500	-3.8	-2.5	0.8	49.7
LAURUS	-8.9	-23.1	-31.6	292.0

\* As on 30<sup>th</sup> Jan 2023; Source: AceEquity, SMIFS research

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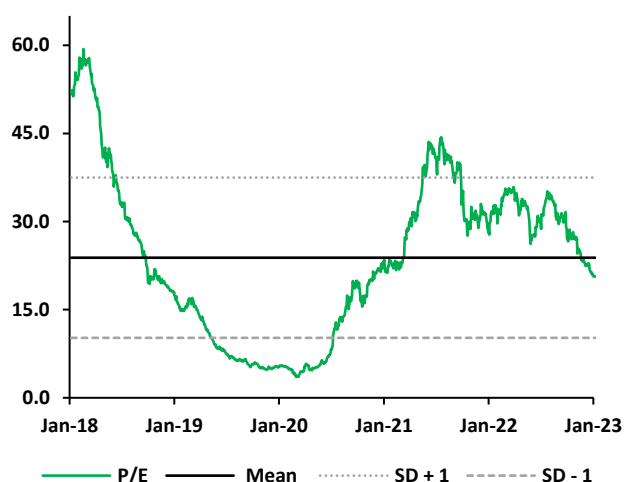
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## Q3FY23 – Key takeaways from the management call

- Earnings missed the estimates due to the combination of 1) less procurement from Global agencies and adverse pricing in ARV business 2) Higher input cost price pressure 3) Lower Paxlovid sales which dragged the performance of synthesis business.
- Improvement in the revenue of the formulation business was the highlight which (contributes 16% to the total revenue). This was mainly driven by developed market sales which has increased on higher volume both from existing and new products with revenue growing +67% QoQ.
- Lower gross margin in the quarter is due to negative operating leverage.
- The ARV business including the API and formulation currently contributes around 35% to the total revenue. The company plans to increase its business from Non-ARV portfolio to expand the margins further.
- The company has secured a supply agreement with Global Fund for ARV drugs for FY23-FY25. Laurus has received fair share of business in the tender and the company is not the lowest bidder.
- The ARV tender business is Rs. 25000 Mn business for the company.
- The LMIC (Low mid-income countries) demand environment is soft which is partially supported by Global Fund HIV tender. The company is selected by Global Fund as 'Panel Supplier' to produce ARV drugs for 2023-2025 period. The supplies will begin from 1Q FY24.
- Cumulatively filed 36 ANDAs in US with 16 PARA IV filings and 11 FTF opportunities.
- The company have added total brownfield capacity of 10bn and it will get utilized in the next year.
- The company filed their first NDA for HIV pediatric product during Q3FY23.

### Margins

- The gross margins in the quarter declined from 55.1% in Q2 FY23 to 53.4% in Q3 FY23, which was impacted due to lower revenue from the synthesis business and negative operating leverage.
- The company expect to achieve EBITDA margins of 28% in FY23. Going ahead it does expect ARV price erosion to normalize and as the contribution from Non ARV business increases, the margins will improve.
- **Capex guidance:** The management has guided for capex of Rs. 20-25 Bn in FY23 and FY24 respectively. Rs 10 Bn will be spent on synthesis business and Rs. 10 Bn on Non-ARV business. No capex will be spent on ARV business.

**Fig 1: 1 year forward P/E chart**


Source: Bloomberg, Company, SMIFS Research

**Fig 2: 1 year forward EV/EBITDA chart**


Source: Bloomberg, Company, SMIFS Research

**Fig 3: SOTP Valuation Metrics for FY25E**

Segment	Sales in FY25E	% contribution	PAT in FY25E	Forward P/E	Segment Value	Value per share (Rs)
Generic API	29,928	40.3%	2,753	18	49,560	90
Formulations	20,985	28.3%	2,980	21	62,577	120
Synthesis Business	21,597	29.1%	5,226	24	1,25,433	230
Bio business	1,691	2.3%	-2,054	12	-24,643	-50
<b>Total Sales</b>	<b>74,200</b>	<b>100.0%</b>	<b>8,906</b>		<b>2,12,927</b>	<b>390</b>

Source: Company, SMIFS Research

**Fig 4: Change in estimates**

Particulars	New Estimates			Old Estimates			Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenues	62,384	63,079	74,200	64,145	67,510	71,808	-2.7%	-6.6%	3.3%
Gross Profit	34,349	32,801	39,326	35,690	37,806	40,571	-3.8%	-13.2%	-3.1%
Gross Margin	55.1	52.0	53.0	55.6	56.0	56.5	(58) bps	(400) bps	(350) bps
EBITDA	17,159	16,763	20,238	18,353	20,641	21,955	-6.5%	-18.8%	-7.8%
EBITDA Margin (%)	27.5	26.6	27.3	28.6	30.6	30.6	(111) bps	(400) bps	(330) bps
PAT	9,152	8,843	10,861	9,509	11,842	12,176	-3.8%	-25.3%	-10.8%
EPS	17.0	16.5	20.2	20.2	22.0	22.8	-15.7%	-25.2%	-11.4%

Source: Company, SMIFS Research

We reduce our EPS estimates by 17-25%, primarily on account of lower synthesis sales.

## Quarterly financials, operating metrics & key performance indicators

Y/E March (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Sales	14119	12785	12035	10288	14248	15390	15759	15,448
Raw Materials	6278	5538	5327	4240	6833	6530	7074	7,194
Employee Costs	1138	1273	1229	1220	1294	1520	1470	1,474
R&D Costs	473	490	420	570	540	585	490	548
Other Expenditure	1509	1530	1609	1405	1615	2213	2236	2,197
<b>EBITDA</b>	<b>4722</b>	<b>3954</b>	<b>3451</b>	<b>2853</b>	<b>3967</b>	<b>4542</b>	<b>4489</b>	<b>4,036</b>
Depreciation	536	585	632	640	657	708	818	844
Interest	219	266	221	231	306	293	401	427
Other Income	45	59	28	53	13	18	11	14
PBT	4012	3161	2626	2035	3017	3559	3281	2,779
Tax	1043	744	586	485	698	1033	943	748
Tax rate (%)	26	24	22	24	23	29	29	27
<b>PAT</b>	<b>2969</b>	<b>2416</b>	<b>2040</b>	<b>1550</b>	<b>2319</b>	<b>2526</b>	<b>2338</b>	<b>2,031</b>
Extraordinary items	0	0	0	0	0	0	0	1
Minority Interest	2	2	21	12	14	13	10	0
<b>Consolidated PAT</b>	<b>2967</b>	<b>2414</b>	<b>2019</b>	<b>1537</b>	<b>2305</b>	<b>2513</b>	<b>2328</b>	<b>2,029</b>
<b>Adjusted PAT</b>	<b>2967</b>	<b>2414</b>	<b>2019</b>	<b>1537</b>	<b>2305</b>	<b>2513</b>	<b>2328</b>	<b>2,030</b>
<b>Y-o-Y Growth (%)</b>								
Revenue	68	31	6	-20	1	20	31	50
EBITDA	146	42	-8	-33	-16	15	30	41
PAT	170	41	-16	-43	-22	5	15	32
<b>Q-o-Q Growth (%)</b>								
Revenue	10	-10	-6	-15	38	8	2	-2
EBITDA	11	-16	-13	-17	39	14	-1	-10
PAT	9	-19	-16	-24	50	9	-7	-13
<b>Margin (%)</b>								
EBITDA	33	31	29	28	28	30	28	26
PAT	21	19	17	15	16	16	15	13

Source: Company, SMIFS research

**Fig 5: Key Assumptions**

Revenue in INR Mn	FY21	FY22	FY23E	FY24E	FY25E
Formulations	16,643	18,800	10,416	14,604	20,985
% growth	102%	13%	-45%	40%	44%
Synthesis	5,190	9,170	25,040	18,780	21,597
% growth	32%	77%	173%	-25%	15%
API	26,210	20,390	25,531	28,158	29,928
% growth	62%	-22%	25%	10%	6%
Biologics segment	90	996	1,398	1,537	1,691
% growth		1007%	40%	10%	10%
<b>Total Revenue</b>	<b>48,133</b>	<b>49,356</b>	<b>62,384</b>	<b>63,079</b>	<b>74,200</b>

Source: Company, SMIFS research

## Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Revenues</b>	<b>48,135</b>	<b>49,356</b>	<b>62,384</b>	<b>63,079</b>	<b>74,200</b>
Raw Materials	21,582	21,938	28,035	30,278	34,874
% of sales	44.8	44.4	44.9	48.0	47.0
Personnel	4,341	5,015	6,181	6,949	8,248
% of sales	9.0	10.2	9.9	11.0	11.1
R&D Expenses	1,839	2,020	2,114	2,523	2,968
% of sales	3.8	4.1	3.4	4.0	4.0
Other Expenses	4,867	6,158	8,896	6,566	7,872
% of sales	10.1	12.5	14.3	10.4	10.6
<b>EBITDA</b>	<b>15,507</b>	<b>14,224</b>	<b>17,159</b>	<b>16,763</b>	<b>20,238</b>
Other Income	237	153	120	315	371
Depreciation & Amortization	2,051	2,515	3,218	4,175	4,905
<b>EBIT</b>	<b>13,693</b>	<b>11,862</b>	<b>14,061</b>	<b>12,904</b>	<b>15,704</b>
Finance cost	682	1,024	1,409	1,337	1,503
<b>Core PBT</b>	<b>12,775</b>	<b>10,686</b>	<b>12,532</b>	<b>11,251</b>	<b>13,830</b>
Extraordinary items	0	0	0	0	0
<b>PBT</b>	<b>13,011</b>	<b>10,839</b>	<b>12,652</b>	<b>11,566</b>	<b>14,201</b>
Tax-Total	3,173	2,514	3,438	2,660	3,266
Tax Rate (%)	24.4	23.2	27.2	23.0	23.0
<b>Reported PAT</b>	<b>9,838</b>	<b>8,324</b>	<b>9,214</b>	<b>8,906</b>	<b>10,935</b>
Minority Interest	2	49	62	63	74
<b>Adjusted PAT</b>	<b>9,836</b>	<b>8,275</b>	<b>9,152</b>	<b>8,843</b>	<b>10,861</b>

Source: Company, SMIFS research estimates

Key Ratios					
YE March	FY21	FY22	FY23E	FY24E	FY25E
<b>Growth Ratio (%)</b>					
Revenues	70.0	2.5	26.4	1.1	17.6
EBITDA	176.4	-8.3	20.6	-2.3	20.7
Adjusted PAT	285.3	-15.9	10.6	-3.4	22.8
<b>Margin Ratios (%)</b>					
Gross Profit	55.2	55.6	55.1	52.0	53.0
EBITDA	32.2	28.8	27.5	26.6	27.3
EBIT	28.4	24.0	22.5	20.5	21.2
Core PBT	26.5	21.6	20.1	17.8	18.6
Adjusted PAT	20.4	16.8	14.7	14.0	14.6
<b>Return Ratios (%)</b>					
ROE	45.0	27.8	24.3	19.3	19.9
ROCE	24.8	17.7	16.6	13.7	14.2
<b>Turnover Ratios (days)</b>					
Gross Block Turnover (x)	1.7	1.4	1.2	1.1	1.1
Adj OCF / Adj PAT (%)	68.6	99.7	91.8	119.7	97.0
Inventory	119.5	130.2	126.0	122.0	126.0
Debtors	99.0	100.1	90.0	95.0	98.0
Creditors	89.4	64.8	70.0	75.0	80.0
Cash conversion cycle	129.1	165.5	146.0	142.0	144.0
<b>Solvency Ratio (x)</b>					
Debt-equity	0.6	0.5	0.5	0.5	0.4
Net debt-equity	0.6	0.5	0.5	0.4	0.4
Gross Debt / EBITDA	1.0	1.2	1.2	1.4	1.3
Current Ratio	2.3	2.2	2.5	2.7	2.7
Interest coverage ratio	20.1	11.6	10.0	9.6	10.5
<b>Dividend</b>					
DPS	1.4	2.0	1.9	1.8	2.2
Dividend Yield (%)	0.4	0.6	0.5	0.5	0.7
Dividend Payout (%)	7.7	13.0	11.0	11.0	11.0
<b>Per share Ratios (Rs)</b>					
Basic EPS (reported)	18.4	15.4	17.1	16.6	20.4
Adjusted EPS	18.3	15.4	17.0	16.5	20.2
CEPS	22.1	20.1	23.0	24.2	29.3
BV	48.4	62.5	77.8	92.6	110.7
<b>Valuation (x)</b>					
Adj P/E	13.3	36.5	20.1	20.8	16.9
P/BV	5.0	9.0	4.4	3.7	3.1
EV/EBITDA	7.4	20.1	9.6	9.7	7.9
EV/Sales	2.4	5.8	2.6	2.6	2.1
EV/Core PBT	10.2	28.2	14.6	16.3	13.2

Source: Company, SMIFS research estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Sources of funds</b>					
Capital	1,073	1,075	1,075	1,075	1,075
Reserves & Surplus	24,934	32,516	40,723	48,659	58,401
<b>Shareholders' Fund</b>	<b>26,007</b>	<b>33,591</b>	<b>41,798</b>	<b>49,733</b>	<b>59,476</b>
<b>Total Loan Funds</b>	<b>15,800</b>	<b>17,768</b>	<b>19,868</b>	<b>22,668</b>	<b>25,468</b>
Other Liabilities	2,374	2,920	4,372	3,530	3,882
<b>Total Liabilities</b>	<b>44,181</b>	<b>54,278</b>	<b>66,037</b>	<b>75,931</b>	<b>88,825</b>
<b>Application of funds</b>					
Gross Block	27,508	34,694	36,075	51,575	58,575
Net Block	19,150	23,953	37,616	40,441	45,536
Capital WIP	3,622	8,132	500	6,000	8,000
Investments	34	308	62	63	74
<b>Other Non-Current Assets</b>	<b>3,953</b>	<b>3,841</b>	<b>4,323</b>	<b>4,405</b>	<b>5,088</b>
Inventories	15,755	17,603	21,535	21,084	25,614
Sundry Debtors	13,061	13,542	15,382	16,418	19,922
Cash and bank balance	485	759	771	676	566
Other current assets	1,449	1,542	1,254	1,394	2,158
<b>Total Current Assets</b>	<b>30,749</b>	<b>33,446</b>	<b>38,943</b>	<b>39,572</b>	<b>48,260</b>
<b>Sundry Creditors</b>	<b>11,787</b>	<b>8,764</b>	<b>11,964</b>	<b>12,961</b>	<b>16,263</b>
Other current liabilities	1,540	6,640	3,444	1,590	1,871
<b>Total Current Liabilities</b>	<b>13,327</b>	<b>15,403</b>	<b>15,408</b>	<b>14,552</b>	<b>18,134</b>
<b>Net Current Assets</b>	<b>17,422</b>	<b>18,043</b>	<b>23,534</b>	<b>25,020</b>	<b>30,127</b>
<b>Total Assets</b>	<b>44,181</b>	<b>54,278</b>	<b>66,037</b>	<b>75,931</b>	<b>88,825</b>

Source: Company, SMIFS research estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Operating profit before WC changes</b>	<b>15,556</b>	<b>14,350</b>	<b>17,279</b>	<b>17,079</b>	<b>20,609</b>
Net Changes in working capital	-5,941	-3,416	-4,031	-2,499	-5,310
Income taxes paid	-2,285	-1,823	-3,438	-2,660	-3,266
<b>Cash flow from operating activities</b>	<b>7,330</b>	<b>9,111</b>	<b>9,809</b>	<b>11,919</b>	<b>12,033</b>
<b>Adj. OCF</b>	<b>6,751</b>	<b>8,249</b>	<b>8,400</b>	<b>10,582</b>	<b>10,531</b>
Capex	-6,839	-8,767	-16,881	-7,000	-10,000
Adj. FCF	-88	-518	-8,480	3,582	531
<b>Cash flow from investing activities</b>	<b>-9,410</b>	<b>-9,143</b>	<b>-9,482</b>	<b>-12,506</b>	<b>-12,248</b>
Debt	3,911	2,702	2,100	2,800	2,800
Dividend	-750	-859	-1,007	-973	-1,195
Interest & Lease Payment	-687	-1,584	-1,409	-1,337	-1,503
<b>Cash flow from financing activities</b>	<b>2,547</b>	<b>303</b>	<b>-315</b>	<b>490</b>	<b>103</b>
<b>Net change in cash</b>	<b>467</b>	<b>270</b>	<b>11</b>	<b>-97</b>	<b>-113</b>

Source: Company, SMIFS research estimates

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Analyst holding in stock: **NO**

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