



# Laurus Labs Ltd

## ARV formulations dragged the revenue growth

Laurus Labs's Q2FY23 performance was below expectations on all counts. Revenue was below estimates as stellar growth in synthesis business was offset by lower revenue of ARV formulations business. The management has withdrawn its USD 1 Bn revenue guidance for FY23 due to changing business dynamics. The short-term headwinds of pricing pressure in ARV formulations business will lead to muted performance going forward. Hence, we cut our revenue and EPS estimate by 11% and 30% for FY23E respectively. We recommend Buy rating on the stock with a target price of Rs 550 per share, 23x on Sept'24E EPS.

### Excellent performance in Synthesis business

- During the quarter, the company posted stellar performance in its synthesis business with a strong growth of 365% YoY and 25% QoQ mainly driven by higher sales from Pfizer's paxlovid and increased business from existing customers. The company is actively working on over 50 projects and on-going supplies for four commercial projects.
- Going ahead, we expect revenue contribution from the synthesis business to increase to 30%-35% from 18% in FY22.

### Formulation business witnessed pressure

- Formulations business showed a decline of 70% YoY and 57% QoQ during Q2FY23, due to lower ARV business. The ARV business has witnessed price erosion of 20%.
- The company did not apply for ARV tenders which had lower price resulting in poor performance of the formulation business.

### API business back on track

The company's ARV API business has shown growth of 7.6% QoQ and 26% YoY driven by channel stock easing and better volumes.

### Valuation:

- Laurus is currently into a large capex cycle that will increase its gross block with investments in API, Finished Dosage and Custom Synthesis. The company acquired Richcore in 2020, which has given it an entry into high-barrier biotechnology segment.
- The company's ARV formulations business is a laggard which is impacting the strong business from the synthesis segment. Based on SOTP valuation, we arrive at a target price of 550 implied P/E multiple of 24.7 (earlier 26.3x) on its Sept' 24E EPS, offering 21% upside from current levels. **BUY.**

Y/E Mar (Rs mn)	Q2 FY23	Q2 FY22	YoY (%)	Q1 FY23	QoQ (%)	Q2 FY23E	Var. (%)
Revenues	15,759	12,035	30.9%	15,390	2.4%	18,255	-13.7%
Gross profit margin (%)	55.1%	55.7%	(63) bps	57.6%	(246) bps		
Employee expense	1470	1229	19.6%	1520	-3.3%		
Other expense	2726	2029	34.4%	2798	-2.6%		
EBITDA	4,489	3,451	30.1%	4,542	-1.2%	5,476	-18.0%
EBITDA Margin (%)	28.5%	28.7%	(19) bps	29.5%	(103) bps	30.0%	(151) bps
Depreciation	818	632	29.5%	708	15.6%		
Interest	401	221	81.2%	293	37.1%		
Other Income	11	28	-60.8%	18	-36.6%		
PBT	3,281	2,626	24.9%	3,559	-7.8%		
Tax	943	586	60.8%	1033.4	-8.8%		
Effective Tax Rate (%)	28.7%	22.3%	640 bps	29.0%	(30) bps		
PAT	2,338	2,039	14.6%	2,526	-7.4%		
Minority Interest & share of associates	13	2	468.2%	14	-10.7%		
Consolidated PAT	2,325	2,037	14.1%	2,512	-7.4%	3,288	-29.3%

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%	45.1%	38.8%	18.8	12.9
FY22	49,356	2.5%	14,224	28.8%	8,275	16.8%	28.0%	27.7%	37.4	23.1
FY23E	64,145	2.5%	18,353	28.6%	9,509	14.8%	50.5%	16.9%	27.5	15.3
FY24E	67,510	30.0%	20,641	30.6%	11,842	17.5%	55.7%	17.2%	20.6	12.9
FY25E	71,808	5.2%	21,955	30.6%	12,176	17.0%	50.6%	15.0%	20.0	12.2

Source: Company, SMIFS research estimates

Rating: Buy      Upside/(Downside): 21%  
 Current Price: 453      Target Price: 550

### Earlier recommendation

Previous Rating: Buy  
 Previous Target Price: 705

### Market data

Bloomberg:	LAURUS IN
52-week H/L (Rs):	626 / 433
Mcap (Rs bn/USD bn):	276/3.3
Shares outstanding (mn):	534.3
Free float:	73.0%
Avg. Daily Vol. (3M Avg.):	0.7 Mn
Face Value (Rs):	2
Group:	S&P BSE 200

Source: Bloomberg, SMIFS research

### Shareholding pattern (%)

	Sep-22	Jun-22	Mar-22	Dec-21
Promoter	27.2	27.2	27.2	27.3
FII's	22.6	21.9	22.4	22.1
DII's	9.3	9.3	7.9	6.8
Public/others	40.9	41.6	42.5	43.8

### 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
S&P BSE 200	0.8	6.1	-1.0	58.8
LAURUS	-11.2	-8.8	-18.2	554.0

\* As on 25<sup>th</sup> Oct 2022; Source: AceEquity, SMIFS research

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## Q2FY23 – Key takeaways from the management call

### Revenue guidance of USD 1 bn revenue has been withdrawn

- Earnings missed the estimates due to the combination of 1) higher than expected price erosion in the ARV business 2) Higher input cost price pressure.
- Improvement in the revenue of the ARV API was the highlight which (contributes 25% to the total revenue) driven by healthy improvement in procurement during the quarter with revenue growing +7% QoQ and 20% YoY.
- Synthesis business has seen stellar growth of 365% YoY and 25% QoQ mainly driven by **addition of new clients and increased business from existing customers**. The higher growth is mainly due to improved sales from Paxlovid-an oral covid pill for Pfizer.
- Going ahead, we expect the contribution from the synthesis business to increase to 32% in FY23 (18% in FY22). The contribution from this business in the quarter was 45%.
- The pricing pressure in the ARV business has further intensified to 20% YoY which was 15% YoY earlier. The decline in ARV formulations business due to pricing pressure is expected to be Rs 5,000 Mn in FY23.
- The management has cut its revenue guidance of USD 1bn revenue by 10% due to changing business dynamics.
- There was no pressure of input costs in the synthesis business.

### Margins

- The mix is changing towards high margin business like 1) Synthesis business (35% - 40%), 2) Non ARV (Anti retro Viral) portfolio. But reduced contribution from Generic formulations will lead to muted performance.
- The gross margins in the quarter declined from 57% in Q1 FY23 to 55.1% in Q2 FY23, which was impacted due to lower revenue from the ARV formulation business.
- The company remain confident to achieve 30% of EBITDA margins in FY23.
- **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.
- **Pfizer Paxlovid:** Laurus has signed up for MPP license for Pfizer anti-Covid pill Paxlovid in FY22 to increase the broad access in LMIC markets.
- Pfizer has guided that the revenue of Paxlovid will be USD 22 bn in CY22. **This represents a sizeable opportunity for Laurus. However, the pricing of Paxlovid for LMIC market is not yet fixed. In US, the 5 days treatment costs around \$530 (INR 40,000).**

## Balance Sheet & Cash Flow

- Operating cash flow has decreased by 23% to Rs. 3,328 Mn in Sep 22 from Rs. 3,868 Mn mainly due to higher inventory levels to mitigate supply chain challenges.
- The short-term borrowings have increased by Rs. 2,671 Mn to Rs 3,798 Mn, which we believe is to fund the working capital requirements.

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 FY24E

Segment	Sales in FY24E	% contribution	PAT in FY24E	Forward P/E	Segment Value	Value per share (Rs)
Generic API	28,158	41.7%	3,154	19	59,921	110
Formulations	13,291	19.7%	3,216	21	67,544	130
Synthesis Business	24,524	36.3%	6,670	27	1,80,101	340
Bio business	1,537	2.3%	-1,131	12	-13,578	-20
<b>Total Sales</b>	<b>67,510</b>	<b>100%</b>	<b>11,909</b>		<b>2,93,988</b>	<b>550</b>

Source: Company, SMIFS Research

Fig 4: SOTP Valuation Metrics

Particulars	New Estimates		Old Estimates		Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenues	64,145	67,510	71,518	79,757	-10.3%	-15.4%
Gross Profit	35,690	37,806	41,056	45,063	-13.1%	-16.1%
Gross Margin	55.6	56.0	57.4	56.5	(177) bps	(50) bps
EBITDA	18,353	20,641	22,487	24,785	-18.4%	-16.7%
EBITDA Margin (%)	28.6	30.6	31.4	31.1	(283) bps	(50) bps
PAT	9,509	11,842	13,588	15,067	-30.0%	-21.4%
EPS	17.7	22.0	25.4	28.2	-30.3%	-21.9%

Source: Company, SMIFS Research

We reduce our EPS estimates by 20-30%, primarily on account of lower ARV sales and margins.

## Quarterly financials, operating metrics & key performance indicators

Y/E March (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Sales	12884	14119	12785	12035	10288	14248	15390	15759
Raw Materials	5831	6278	5538	5327	4240	6833	6530	7074
Employee Costs	1006	1138	1273	1229	1220	1294	1520	1470
R&D Costs	473	473	490	420	570	540	585	490
Other Expenditure	1311	1509	1530	1609	1405	1615	2213	2236
<b>EBITDA</b>	<b>4263</b>	<b>4722</b>	<b>3954</b>	<b>3451</b>	<b>2853</b>	<b>3967</b>	<b>4542</b>	<b>4489</b>
Depreciation	516	536	585	632	640	657	708	818
Interest	174	219	266	221	231	306	293	401
Other Income	69	45	59	28	53	13	18	11
PBT	3642	4012	3161	2626	2035	3017	3559	3281
Tax	913	1043	744	586	485	698	1033	943
Tax rate (%)	25	26	24	22	24	23	29	29
<b>PAT</b>	<b>2729</b>	<b>2969</b>	<b>2416</b>	<b>2040</b>	<b>1550</b>	<b>2319</b>	<b>2526</b>	<b>2338</b>
Extraordinary items	0	0	0	0	0	0	0	0
Minority Interest	0	2	2	21	12	14	13	10
<b>Consolidated PAT</b>	<b>2729</b>	<b>2967</b>	<b>2414</b>	<b>2019</b>	<b>1537</b>	<b>2305</b>	<b>2513</b>	<b>2328</b>
<b>Adjusted PAT</b>	<b>2729</b>	<b>2967</b>	<b>2414</b>	<b>2019</b>	<b>1537</b>	<b>2305</b>	<b>2513</b>	<b>2328</b>
<b>Y-o-Y Growth (%)</b>								
Revenue	77	68	31	6	-20	1	20	31
EBITDA	188	146	42	-8	-33	-16	15	30
PAT	271	170	41	-16	-43	-22	5	15
<b>Q-o-Q Growth (%)</b>								
Revenue	13	10	-10	-6	-15	38	8	2
EBITDA	14	11	-16	-13	-17	39	14	-1
PAT	13	9	-19	-16	-24	50	9	-7
<b>Margin (%)</b>								
EBITDA	33	33	31	29	28	28	30	28
PAT	21	21	19	17	15	16	16	15

Source: Company, SMIFS research

### Fig 5: Key Assumptions

Revenue in INR Mn	2021	2022E	2023E	2024E	2025E
Formulations	16,643	18,800	12,224	13,291	14,741
% growth	102%	13%	-35%	9%	11%
Synthesis	5,190	9,170	25,282	24,524	25,750
% growth	32%	77%	176%	-3%	5%
API	26,210	20,390	25,242	28,158	29,627
% growth	62%	-22%	24%	12%	5%
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>64,145</b>	<b>67,510</b>	<b>71,808</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>64,145</b>	<b>67,510</b>	<b>71,808</b>
Raw Materials	21,582	21,938	28,455	29,704	31,237
% of sales	44.8	44.4	44.4	44.0	43.5
Personnel	4,341	5,015	6,815	7,437	8,126
% of sales	9.0	10.2	10.6	11.0	11.3
R&D Expenses	1,839	2,020	2,292	2,700	2,872
% of sales	3.8	4.1	3.6	4.0	4.0
Other Expenses	4,867	6,158	8,230	7,027	7,618
% of sales	10.1	12.5	12.8	10.4	10.6
<b>EBITDA</b>	<b>15,507</b>	<b>14,224</b>	<b>18,353</b>	<b>20,641</b>	<b>21,955</b>
Other Income	237	153	201	338	359
Depreciation & Amortization	2,051	2,515	3,426	4,175	4,905
<b>EBIT</b>	<b>13,693</b>	<b>11,862</b>	<b>15,129</b>	<b>16,804</b>	<b>17,409</b>
Finance cost	682	1,024	1,270	1,337	1,503
<b>Core PBT</b>	<b>12,775</b>	<b>10,686</b>	<b>13,658</b>	<b>15,129</b>	<b>15,548</b>
Extraordinary items	0	0	0	0	0
<b>PBT</b>	<b>13,011</b>	<b>10,839</b>	<b>13,859</b>	<b>15,466</b>	<b>15,907</b>
Tax-Total	3,173	2,514	4,286	3,557	3,659
Tax Rate (%)	24.4	23.2	30.9	23.0	23.0
<b>Reported PAT</b>	<b>9,838</b>	<b>8,324</b>	<b>9,573</b>	<b>11,909</b>	<b>12,248</b>
Minority Interest	2	49	64	68	72
<b>Adjusted PAT</b>	<b>9,836</b>	<b>8,275</b>	<b>9,509</b>	<b>11,842</b>	<b>12,176</b>

Source: Company, SMIFS research estimates

Key Ratios					
YE March	FY21	FY22	FY23E	FY24E	FY25E
<b>Growth Ratio (%)</b>					
Revenues	70.0	2.5	30.0	5.2	6.4
EBITDA	176.4	-8.3	29.0	12.5	6.4
Adjusted PAT	285.3	-15.9	14.9	24.5	2.8
<b>Margin Ratios (%)</b>					
Gross Profit	55.2	55.6	55.6	56.0	56.5
EBITDA	32.2	28.8	28.6	30.6	30.6
EBIT	28.4	24.0	23.6	24.9	24.2
Core PBT	26.5	21.6	21.3	22.4	21.7
Adjusted PAT	20.4	16.8	14.8	17.5	17.0
<b>Return Ratios (%)</b>					
ROE	72.2	49.3	50.5	55.7	50.6
ROCE	24.8	17.7	16.9	17.2	15.0
<b>Turnover Ratios (days)</b>					
Gross Block Turnover (x)	1.7	1.4	1.3	1.2	1.1
Adj OCF / Adj PAT (%)	68.6	99.7	88.3	106.1	117.8
Inventory	119	130	126.0	122.0	126.0
Debtors	99	100	90.0	95.0	98.0
Creditors	89	65	70.0	75.0	80.0
Cash conversion cycle	129	166	146.0	142.0	144.0
<b>Solvency Ratio (x)</b>					
Debt-equity	0.6	0.5	0.5	0.4	0.4
Net debt-equity	0.6	0.5	0.5	0.4	0.4
Gross Debt / EBITDA	1.0	1.2	1.1	1.1	1.2
Current Ratio	2.3	2.2	2.5	2.7	2.7
Interest coverage ratio	20.1	11.6	11.9	12.6	11.6
<b>Dividend</b>					
DPS	1.4	2.0	1.9	2.4	2.5
Dividend Yield (%)	0.3	0.4	0.4	0.5	0.6
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	17.8	22.2	22.8
Adjusted EPS	18.3	15.4	17.7	22.0	22.7
CEPS	22.1	20.1	24.1	29.8	31.8
BV	48.4	62.5	78.4	98.1	118.4
<b>Valuation (x)</b>					
Adj P/E	13.3	36.5	27.5	20.6	20.0
P/BV	5.0	9.0	6.2	4.6	3.8
EV/EBITDA	9.4	22.4	15.3	12.9	12.2
EV/Sales	3.0	6.5	4.4	3.9	3.7
EV/Core PBT	11.4	29.8	20.6	17.6	17.2

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	41,042	51,651	62,562
<b>Shareholders' Fund</b>	<b>26,007</b>	<b>33,591</b>	<b>42,117</b>	<b>52,726</b>	<b>63,637</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	4,476	3,729	3,779
<b>Total Liabilities</b>	<b>44,181</b>	<b>54,278</b>	<b>66,460</b>	<b>79,123</b>	<b>92,884</b>
<b>Application of funds</b>					
Gross Block	27,508	34,694	36,075	51,575	58,575
Net Block	19,150	23,953	37,408	40,233	45,328
Capital WIP	3,622	8,132	500	8,000	13,000
Investments	34	308	64	68	72
<b>Other Non-Current Assets</b>	<b>3,953</b>	<b>3,841</b>	<b>4,371</b>	<b>4,529</b>	<b>5,009</b>
Inventories	15,755	17,603	22,143	22,565	24,789
Sundry Debtors	13,061	13,542	15,817	17,571	19,280
Cash and bank balance	485	759	710	238	866
Other current assets	1,449	1,542	1,289	1,492	2,089
<b>Total Current Assets</b>	<b>30,749</b>	<b>33,446</b>	<b>39,960</b>	<b>41,866</b>	<b>47,023</b>
<b>Sundry Creditors</b>	<b>11,787</b>	<b>8,764</b>	<b>12,302</b>	<b>13,872</b>	<b>15,739</b>
Other current liabilities	1,540	6,640	3,542	1,702	1,810
<b>Total Current Liabilities</b>	<b>13,327</b>	<b>15,403</b>	<b>15,843</b>	<b>15,574</b>	<b>17,549</b>
<b>Net Current Assets</b>	<b>17,422</b>	<b>18,043</b>	<b>24,116</b>	<b>26,292</b>	<b>29,474</b>
<b>Total Assets</b>	<b>44,181</b>	<b>54,278</b>	<b>66,460</b>	<b>79,123</b>	<b>92,884</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>18,554</b>	<b>20,979</b>	<b>22,314</b>
Net Changes in working capital	-5,941	-3,416	-4,603	-3,526	-2,806
Income taxes paid	-2,285	-1,823	-4,286	-3,557	-3,659
<b>Cash flow from operating activities</b>	<b>7,330</b>	<b>9,111</b>	<b>9,665</b>	<b>13,896</b>	<b>15,850</b>
Adj. OCF	6,751	8,249	8,395	12,558	14,347
Capex	-6,839	-8,767	-16,881	-7,000	-10,000
Adj. FCF	-88	-518	-8,486	5,558	4,347
<b>Cash flow from investing activities</b>	<b>-9,410</b>	<b>-9,143</b>	<b>-9,498</b>	<b>-14,530</b>	<b>-15,182</b>
Debt	3,911	2,702	2,100	2,800	2,800
Dividend	-750	-859	-1,046	-1,303	-1,339
Interest & Lease Payment	-687	-1,584	-1,270	-1,337	-1,503
<b>Cash flow from financing activities</b>	<b>2,547</b>	<b>303</b>	<b>-216</b>	<b>160</b>	<b>-42</b>
<b>Net change in cash</b>	<b>467</b>	<b>270</b>	<b>-49</b>	<b>-475</b>	<b>626</b>

Source: Company, SMIFS research estimates

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Analyst holding in stock: **NO**

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