

Recommendation

Laurus Lab Ltd.		BUY
Current Market Price (CMP) Rs. 321.45	Target Price Rs. 475	

Our price target of Rs. 475 offers upside of approximately 50% from current market price, over a 2 year period.

Opportunity

- Laurus Labs (LL) stock has gone steadily downhill after hitting a 52 wk high of Rs 606 in August 2022. It has practically halved to the current price due to various factors, which are transitory in nature, in our view.
- We feel the LL stock presents a good long-term opportunity to deploy patient capital in expectation of earning significant returns, with limited downside.
- LL posted a revenue CAGR of 24% and EPS CAGR of 35% between FY18-FY23.

Company Update:

- The key business areas of LL in the just concluded FY23 were:
 1. **FDf** (19% of sales) – This declined by 39% due to less procurement from global agencies and adverse pricing. LL has now signed supply agreement with global funds for ARV drugs in FY24-FY25.
 2. **API** (43% of sales) – Grew 28% in FY23, supported by growing CMO opportunities
 3. **CDMO-Syn** (36% of sales) – Benefitted from scale execution with Big Pharma in record time, visibility of LL to win more business from global clients is enhanced.
 4. **Bio** (2% of sales) - Strong rebound and recorded 25% growth in sales. Key portfolio driver includes AOF (animal origin free) proteins.
- LL has more than 6500 employees of which 2300 are in the scientific team (R&D/Quality). The total R&D spend in five years, between FY18-FY23, is a high Rs 923 crs.



Laurus Lab Ltd. - BUY

Positive:

- LL posted a good revenue growth of 22% in FY23 to clock Rs 6041 crs of sales, EBITDA was up 11% at Rs. 1594 crs but PBT was up only 2% at Rs. 1109 crs, Operating Cash Flow grew 9% to Rs. 994 crs, EPS was Rs. 14.6, down 5%. Net working capital rose only 14% though sales grew 22%.
- Total debt increased by only Rs. 240 crs in FY23 for LL, despite incurring a capex of Rs. 990 crs.

Current Negatives in LL:

- The aspirational goal of USD 1 bn in revenue was deferred in mid-2022, due to severe price erosion in ARV APIs and low offtake in ARV formulation.
- The management has guided to a flat or marginally higher revenue in FY24 in late April 2023, so practically there are two years – FY23 and FY24 – of stagnancy.
- Large capex cycle underway, whereby LL has invested about Rs 1000 crs in both FY22 and FY23 and is expected to do the same in FY24. The Company charges all pre-operative expenses to the current income statement, thus burdening current profits.

The Potential Positives for LL:

- The CDMO business (has highest margins) has seen a breakthrough with Big Pharma, right to win in CDMO is based on reputation, regulatory track record and plant flexibility with volumes. Three greenfield sites are being set up to scale up this business
- The Biotech business is also scaling up well, expanding capacities to grow the AOF proteins segment as well as large scale precision fermentation going up to 1 mn litres.
- The price erosion and offtake uncertainty prone ARV business will scale down to just 25-30% of sales in FY25, from a high 73% of sales in FY18. This will protect LL from cyclicality and margin pressure.

Recommendation:

We expect LL to resume its growth journey from early CY2024 with full impact on FY25 numbers. The aspirational target of USD 1 bn in sales may be achieved by the end of FY25. With steady margins, there's ample reason to believe that LL will be able to grow EPS by about 40-50% over FY24-FY25 and thus can justify our aggressive price target to be achieved over a period of two years.

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