

Custom synthesis continues to drive numbers...

About the stock: Laurus Labs operates in the segment of generic APIs & FDFs (formulations), custom synthesis and biotechnology. Major focus in APIs is on ARV, oncology and other APIs.

- It owns 11 manufacturing units (six FDA approved sites) with 74 DMFs, 32 ANDAs filed (15 Para IV, 11 first to file) and 192 patents granted
- Laurus acquired Richore Life Sciences to diversify in the area of recombinant animal origin free products, enzymes as well as building biologics custom synthesis

Q3FY23 Results: Beat on estimates propelled by custom synthesis business.

- Laurus' revenues grew 50.2% YoY to ~₹ 1545 crore in Q3FY23 on the back of 210% YoY growth in custom synthesis
- EBITDA grew 41.5% YoY to ₹ 404 crore. EBITDA margins declined ~161 bps YoY to 26.1%
- PAT increased ~31.8% YoY to ~₹ 203 crore

What should investors do? Laurus Lab's share price has grown at 56.9% CAGR over the past three years.

- We continue to remain positive and retain our **BUY** rating on the stock amid incremental contribution from custom synthesis with visible order-book

Target Price and Valuation: Valued at ₹ 400 i.e. 18x P/E on FY25E EPS of ₹ 22.3.

Key triggers for future price performance:

- **Synthesis:** Well-positioned to meet fast growing global demand for NCE drug substance and drug products with ongoing supplies for seven commercial products. Setting up dedicated R&D centre and three greenfield manufacturing units (FY24, FY25)
- **Formulations:** Product launches in anti-diabetic (FY23) & CV portfolio (FY24) in US & Europe with target opportunity at ~ US\$40 billion. Gradual traction from Unit-2 commissioned in Q1FY23 taking total capacity to 10 billion units
- **API:** Robust order-book in anti-diabetic, CV & PPI amid capacity expansion in high growth therapeutics with total reactor volume of +7000KL by FY23
- **Biologics:** Expanding the biologics custom synthesis at scale. Commercial scale-up of the new fermentation capacity (food proteins). Plans to add 1 million litre fermentation capacity in Phase 1

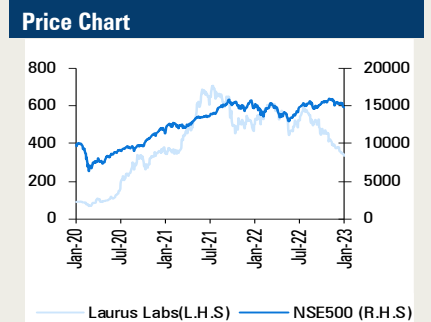
Alternate Stock Idea: Apart from Laurus, in healthcare coverage we like Granules.

- Granules India is a vertically integrated company that manufactures API, intermediates and finished dosages with vision to play on its strength of economies of scale and expansion into more complex products/forms
- BUY with a target price of ₹ 355



| Particulars | |
|---------------------------|---------------|
| Particular | Amount |
| Market Capitalisation | ₹ 17823 crore |
| Debt (FY22) | ₹ 1915 crore |
| Cash & Equivalents (FY22) | ₹ 76 crore |
| EV (₹ Cr) | ₹ 19662 crore |
| 52 week H/L (₹) | 626/324 |
| Equity capital | ₹ 107 crore |
| Face value | ₹ 2 |

| Shareholding pattern | | | | |
|----------------------|--------|--------|--------|--------|
| (in %) | Mar-22 | Jun-22 | Sep-22 | Dec-22 |
| Promoter | 27.3 | 27.3 | 27.3 | 27.2 |
| Others | 72.7 | 72.7 | 72.7 | 72.8 |



Recent Event & Key risks

- Capacity ramp-up for formulations
- **Key Risk:** (i) Delay in commercialisation of new facility (ii) Slower offtake and persisting pricing pressure in ARV space

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Kushal Shah
kushal.shah@icicisecurities.com

Utkarsh Jain
utkarsh.jain@icicisecurities.com

Key Financial Summary

| Key Financials (₹ Crore) | FY20 | FY21 | FY22 | 5 year CAGR (FY17-22) | FY23E | FY24E | FY25E | 2 year CAGR |
|--------------------------|--------|--------|--------|-----------------------|--------|--------|--------|-------------|
| Net Sales | 2831.7 | 4813.5 | 4935.7 | 21.0 | 6023.2 | 6804.1 | 7579.3 | 12.2 |
| EBITDA | 561.0 | 1550.7 | 1422.4 | 30.7 | 1708.8 | 1973.2 | 2235.9 | 14.4 |
| EBITDA Margins (%) | 19.8 | 32.2 | 28.8 | | 28.4 | 29.0 | 29.5 | |
| Adj. Profit | 255.3 | 983.6 | 827.5 | 39.7 | 888.3 | 1026.9 | 1197.8 | 16.1 |
| Adj. EPS (₹) | 4.8 | 18.3 | 15.4 | | 16.5 | 19.1 | 22.3 | |
| PE (x) | 69.9 | 18.1 | 21.6 | | 20.1 | 17.4 | 14.9 | |
| RoE (%) | 14.4 | 37.9 | 24.7 | | 21.4 | 20.2 | 19.5 | |
| RoCE (%) | 13.0 | 31.7 | 21.3 | | 20.8 | 21.5 | 22.0 | |

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results: Strong continued demand from custom synthesis

- Revenues grew 50.2% YoY to ~₹ 1545 crore in Q3FY23 on the back of 210% YoY growth in custom synthesis segment, which was at ₹ 642 crore. Such performance was led by favourable market trends along with execution of commercial projects. Formulations de-grew 33% YoY to ₹ 249 crore. The impact was due to lower demand and adverse price in the ARV formulations. APIs revenues increased 49.1% YoY to ₹ 632 crore driven by ramp up in new contract supplies. ARV APIs sales grew 83.2% YoY to ~₹ 373 crore. The improvement was due to a sharp increase in its volumes. During the same period, oncology API de-grew 10.6% YoY to ~₹ 76 crore and other API grew 35.1% YoY to ~₹ 183 crore. Laurus Bio delivered de-growth of 12% YoY to ₹ 22 crore due to unscheduled downtime, which led to deferred production for projects. On the operational front, EBITDA grew 41.5% YoY to ~₹ 404 crore while EBITDA margins fell ~161 bps YoY to 26.1%. PAT grew 31.8% YoY to ~₹ 203 crore for the quarter
- Laurus Labs' Q3 was a beat on the revenue as well as on margin front, mainly due to custom synthesis, which came in at ₹ 642 crore vs. our expectation of ₹ 363 crore. Laurus has multiple planned capacity expansions in portfolio based on complexity and scale towards strengthening and diversifying business by an increased focus on non-ARV APIs and formulations and high-growth custom synthesis segments

ESG Disclosure Score*

| Score | FY20 | FY21 | FY22 |
|--------------------------|-------------|-------------|------|
| Environmental | 23.9 | 38.2 | - |
| Social | 45.4 | 43.6 | - |
| Governance | 78.6 | 78.6 | - |
| Overall ESG Score | 49.3 | 53.5 | - |

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Q3FY23 Earnings Conference Call highlights:

Segmental mix:

FDF:

- The company has become panel supplier for the Global Fund to produce ARV drugs for 2023-25. Commercialisation is expected from Q1FY24
- It received first new drug application (NDA) with the USFDA for paediatric HIV based on ODF technology platform

API:

- Gradual ramp up in the new contract supplies supported the growth trajectory
- Filed 77 DMFs till date (vs. FY22: 73 DMFs)

Synthesis:

- Actively working on over 60 projects (50 till Q2FY23) and on-going supplies for four commercial APIs and several intermediates

Scale up of capacities:

- Greenfield investment in Vizag is progressing as scheduled
- Unit-2 is undergoing brownfield capacity expansion where it manufactures FDF
- The capex plan for custom synthesis capability remains as per schedule, which is expected to bring new opportunities and platform technologies
- The company has guided for R2 unit's expansion in a phased manner for Laurus Bio. The new site is likely to strengthen Laurus' capabilities in AOF proteins
- It has also initiated regulatory approval for a sizeable land parcel adjacent to the existing R2 unit

Other highlights:

- The cardio and asthma therapies are seeing a steady ramp up
- The company has said it has no plans to divert ARV facilities for Custom synthesis business.
- Its steroid portfolio is delivering a stable performance whereas dietary supplements in human health business is growing well
- Majority of increased capex will be for non ARV and custom synthesis business

Exhibit 1: Variance Analysis

| | Q3FY23 | Q3FY23E | Q3FY22 | YoY (%) | Q2FY23 | QoQ (%) | Comments |
|-----------------------|---------|---------|---------|---------|---------|---------|---|
| Revenue | 1,544.8 | 1,286.5 | 1,028.8 | 50.2 | 1,575.9 | -2.0 | Growth driven by Custom Synthesis |
| Raw Material Expense | 719.4 | 617.5 | 424.0 | 69.7 | 707.4 | 1.7 | |
| Gross margins (%) | 53.4 | 52.0 | 58.8 | -535.1 | 55.1 | -167.8 | |
| Employee Expenses | 147.4 | 148.0 | 122.0 | 20.8 | 147.0 | 0.2 | |
| Other Expenditure | 274.5 | 199.4 | 197.5 | 39.0 | 272.6 | 0.7 | |
| EBITDA | 403.6 | 321.6 | 285.3 | 41.5 | 448.9 | -10.1 | |
| EBITDA (%) | 26.1 | 25.0 | 27.7 | -160.7 | 28.5 | -236.2 | YoY decline mainly due to higher other expenses and adverse operating leverage in formulations business |
| Interest | 42.7 | 40.1 | 23.1 | 84.9 | 40.1 | 6.5 | |
| Depreciation | 84.4 | 81.8 | 64.0 | 31.9 | 81.8 | 3.2 | |
| Other Income | 1.4 | 1.5 | 5.3 | -73.2 | 1.1 | 28.8 | |
| PBT before EO & Fore. | 277.9 | 201.1 | 203.5 | 36.5 | 328.1 | -15.3 | |
| Forex & EO | 0.0 | 0.0 | 0.0 | | 0.0 | | |
| PBT | 277.9 | 201.1 | 203.5 | 36.5 | 328.1 | -15.3 | |
| Tax | 74.8 | 46.7 | 48.5 | 54.1 | 94.3 | -20.7 | |
| PAT before MI | 203.1 | 154.5 | 155.0 | 31.0 | 233.8 | -13.1 | |
| MI | 0.5 | 0.6 | 1.2 | | 0.4 | | |
| Net Profit | 202.5 | 153.9 | 153.7 | 31.8 | 233.4 | -13.2 | Delta vis-à-vis EBITDA on back of higher depreciation and tax expense . |
| Key Metrics | | | | | | | |
| Anti Retro Viral API | 372.9 | 329.7 | 203.5 | 83.2 | 408.0 | -8.6 | ARV API witnessed healthy quarter majorly driven by volume growth |
| Oncology API | 75.8 | 84.8 | 84.8 | -10.6 | 47.6 | 59.3 | Declined due to lower off take of a key product |
| Other APIs | 183.3 | 176.4 | 135.7 | 35.1 | 224.4 | -18.3 | Strong growth led by new contract supplies |
| API | 632.0 | 590.9 | 424.0 | 49.1 | 680.0 | -7.1 | |
| Formulations | 249.0 | 298.4 | 373.0 | -33.2 | 149.0 | 67.1 | Key factors impacting were lower volumes and lower pricing. |
| Custom Synthesis | 642.0 | 362.3 | 207.0 | 210.1 | 720.0 | -10.8 | YoY growth led by solid demand from new and existing clients |
| Laurus Bio | 22.0 | 35.0 | 25.0 | -12.0 | 27.0 | -18.5 | YoY de-growth due to unscheduled downtime which led to deferred production. |

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

| ₹ Crore) | FY23E | | | FY24E | | | Comments |
|-------------------|---------|---------|----------|---------|---------|----------|--|
| | Old | New | % Change | Old | New | Change | |
| Revenue | 6,391.1 | 6,022.9 | -5.8 | 7,801.4 | 6,804.1 | -12.8 | Changed due to significant reduction in estimates of covid related execution |
| EBITDA | 1,861.6 | 1,708.8 | -8.2 | 2,360.4 | 1,973.2 | -16.4 | |
| EBITDA Margin (%) | 29.1 | 28.4 | -76 bps | 30.3 | 29.0 | -126 bps | Slowdown in Custom Synthesis will alter margins |
| PAT | 1,033.9 | 888.3 | -14.1 | 1,348.8 | 1,026.9 | -23.9 | |
| EPS (₹) | 19.2 | 16.5 | -14.1 | 25.1 | 19.1 | -23.9 | |

Source: ICICI Direct Research

Exhibit 3: Assumptions

| ₹ crore) | Current | | | | Earlier | | Comments |
|----------------------|---------|---------|---------|---------|---------|---------|--|
| | FY21 | FY22 | FY23E | FY24E | FY23E | FY24E | |
| Anti Retro Viral API | 1,852.0 | 1,250.5 | 1,530.4 | 1,606.9 | 1,534.0 | 1,610.7 | |
| Oncology API | 263.0 | 287.8 | 282.2 | 316.0 | 291.1 | 326.1 | |
| Other APIs | 506.0 | 501.1 | 737.3 | 847.9 | 730.4 | 913.0 | |
| API | 2,621.0 | 2,039.4 | 2,549.9 | 2,770.9 | 2,555.6 | 2,849.8 | |
| Formulations | 1,664.0 | 1,880.0 | 1,033.4 | 1,295.0 | 1,211.7 | 1,454.8 | Changed mainly due to lower offtake and demand scenario |
| Custom synthesis | 519.0 | 917.0 | 2,339.0 | 2,572.9 | 2,497.0 | 3,369.8 | Changed due to significant reduction in estimates of covid related execution |

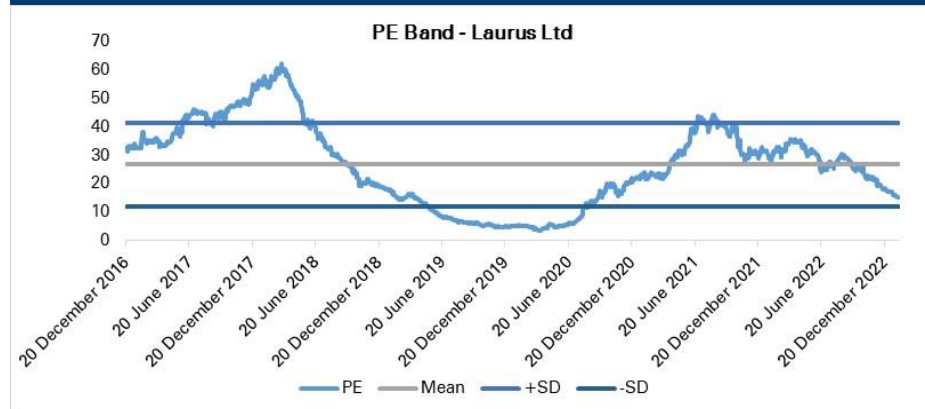
Source: ICICI Direct Research

Exhibit 4: Financial Summary

| | Revenues (₹ crore) | Growth (%) | Adj. EPS (₹) | Growth (%) | P/E (x) | EV/EBITDA (X) | RoNW (%) | RoCE (%) |
|-------|-----------------------|---------------|-----------------|---------------|------------|------------------|-------------|-------------|
| FY21 | 4814 | 70.0 | 18.3 | 285.3 | 18.1 | 12.4 | 37.9 | 31.7 |
| FY22 | 4936 | 2.5 | 15.4 | -15.9 | 21.6 | 13.8 | 24.7 | 21.3 |
| FY23E | 6023 | 22.0 | 16.5 | 7.3 | 20.1 | 11.6 | 21.4 | 20.8 |
| FY24E | 6804 | 13.0 | 19.1 | 15.6 | 17.4 | 9.9 | 20.2 | 21.5 |
| FY25E | 7579 | 11.4 | 22.3 | 16.6 | 14.9 | 8.3 | 19.5 | 22.0 |

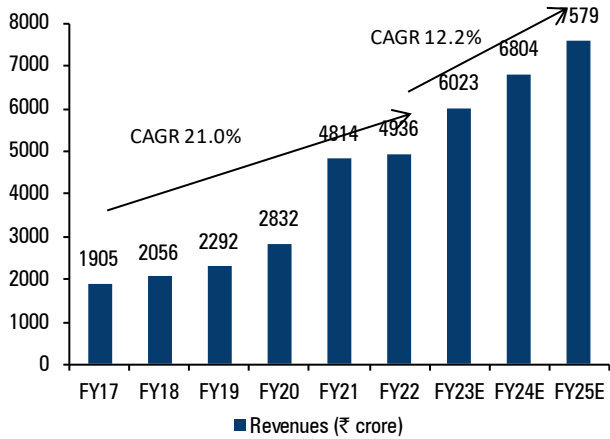
Source: ICICI Direct Research

Exhibit 5: PE Band



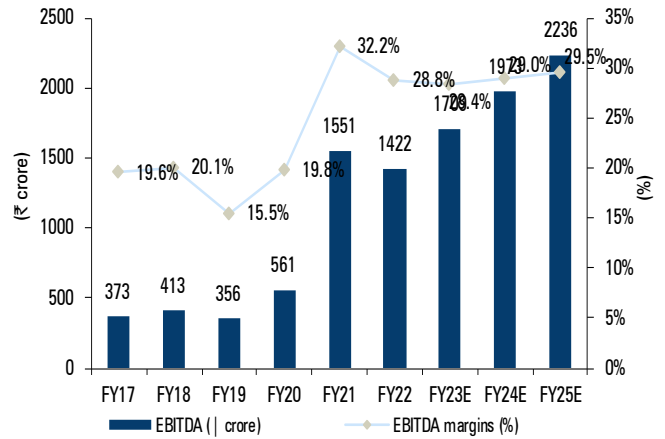
Source: ICICI Direct Research

Exhibit 6: Revenues to grow at 12.2% CAGR in FY23E-25E



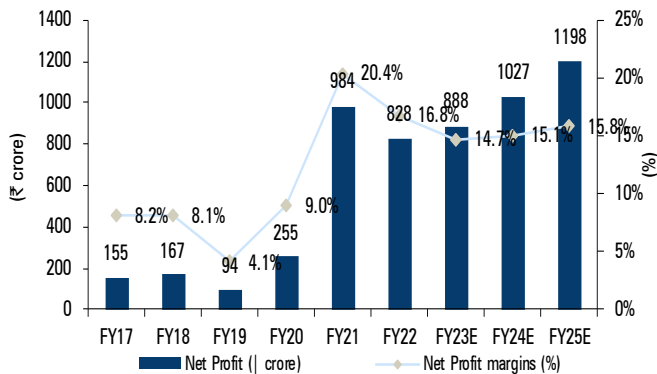
Source: ICICI Direct Research, Company

Exhibit 7: EBITDA & EBITDA margins trend



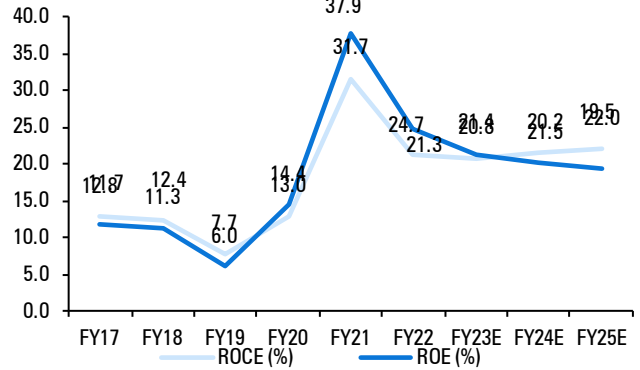
Source: ICICI Direct Research, Company

Exhibit 8: PAT & PAT margins trend



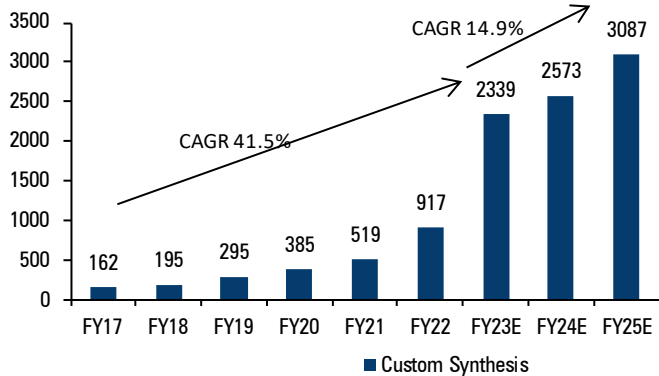
Source: ICICI Direct Research, Company

Exhibit 9: RoE & RoCE trend



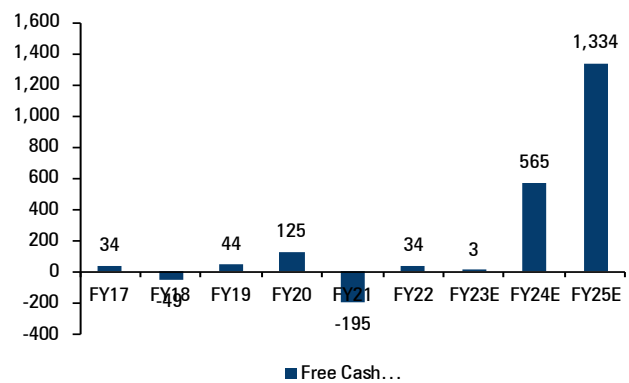
Source: ICICI Direct Research, Company

Exhibit 10: CS to grow at 14.9% CAGR in FY23E-FY25E



Source: ICICI Direct Research, Company

Exhibit 11: Positive free cash flow generation, going ahead



Source: ICICI Direct Research, Company

Exhibit 12: Trends in Quarterly Performance

| (₹ Crore) | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 | Q2FY22 | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | YoY (%) | QoQ (%) |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|----------|
| Total Operating Income | 729.6 | 839.1 | 974.3 | 1138.8 | 1288.4 | 1411.9 | 1278.5 | 1203.5 | 1028.8 | 1424.8 | 1538.9 | 1575.9 | 1544.8 | 50.2 | -2.0 |
| Raw Material Expenses | 360.6 | 418.3 | 446.1 | 501.3 | 583.1 | 627.8 | 553.8 | 532.7 | 424.0 | 683.3 | 653.0 | 707.4 | 719.4 | 69.7 | 1.7 |
| % of revenue | 49.4 | 49.8 | 45.8 | 44.0 | 45.3 | 44.5 | 43.3 | 44.3 | 41.2 | 48.0 | 42.4 | 44.9 | 46.6 | 535 bps | 168 bps |
| Gross Profit | 369.0 | 420.8 | 528.3 | 637.6 | 705.3 | 784.2 | 724.7 | 670.8 | 604.7 | 741.6 | 886.0 | 868.5 | 825.4 | 36.5 | -5.0 |
| Gross Profit Margin (%) | 50.6 | 50.2 | 54.2 | 56.0 | 54.7 | 55.5 | 56.7 | 55.7 | 58.8 | 52.0 | 57.6 | 55.1 | 53.4 | -535 bps | -168 bps |
| Employee Expenses | 88.4 | 88.1 | 111.6 | 108.1 | 100.6 | 113.8 | 127.3 | 122.9 | 122.0 | 129.4 | 152.0 | 147.0 | 147.4 | 20.8 | 0.2 |
| % of revenue | 12.1 | 10.5 | 11.5 | 9.5 | 7.8 | 8.1 | 10.0 | 10.2 | 11.9 | 9.1 | 9.9 | 9.3 | 9.5 | -232 bps | 21 bps |
| Other Manufacturing Expens | 132.4 | 140.9 | 138.4 | 155.6 | 178.4 | 198.2 | 202.0 | 202.9 | 197.5 | 215.5 | 279.8 | 272.6 | 274.5 | 39.0 | 0.7 |
| % of revenue | 18.1 | 16.8 | 14.2 | 13.7 | 13.8 | 14.0 | 15.8 | 16.9 | 19.2 | 15.1 | 18.2 | 17.3 | 17.8 | -142 bps | 47 bps |
| Total Expenditure | 581.4 | 647.4 | 696.0 | 765.0 | 862.1 | 939.7 | 883.2 | 858.4 | 743.5 | 1028.1 | 1084.8 | 1127.0 | 1141.3 | 53.5 | 1.3 |
| % of revenue | 79.7 | 77.1 | 71.4 | 67.2 | 66.9 | 66.6 | 69.1 | 71.3 | 72.3 | 72.2 | 70.5 | 71.5 | 73.9 | 161 bps | 236 bps |
| EBITDA | 148.2 | 191.8 | 278.3 | 373.9 | 426.3 | 472.2 | 395.4 | 345.1 | 285.3 | 396.7 | 454.2 | 448.9 | 403.6 | 41.5 | -10.1 |
| EBITDA Margins (%) | 20.3 | 22.9 | 28.6 | 32.8 | 33.1 | 33.4 | 30.9 | 28.7 | 27.7 | 27.8 | 29.5 | 28.5 | 26.1 | -161 bps | -236 bps |
| Depreciation | 47.6 | 46.1 | 48.8 | 51.0 | 51.6 | 53.6 | 58.5 | 63.2 | 64.0 | 65.7 | 70.8 | 81.8 | 84.4 | 31.9 | 3.2 |
| Interest | 20.8 | 20.7 | 15.1 | 13.7 | 17.4 | 21.9 | 26.6 | 22.1 | 23.1 | 30.6 | 29.3 | 40.1 | 42.7 | 84.9 | 6.5 |
| Other Income | 1.9 | 1.7 | 7.1 | 5.1 | 6.9 | 4.5 | 5.9 | 2.8 | 5.3 | 1.3 | 1.8 | 1.1 | 1.4 | -73.2 | 28.8 |
| Forex & EO | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| PBT | 81.7 | 126.7 | 221.5 | 314.3 | 364.2 | 401.2 | 316.1 | 262.6 | 203.5 | 301.7 | 355.9 | 328.1 | 277.9 | 36.5 | -15.3 |
| Total Tax | 8.2 | 16.6 | 49.7 | 72.0 | 91.3 | 104.3 | 74.4 | 58.6 | 48.5 | 69.8 | 103.3 | 94.3 | 74.8 | 54.1 | -20.7 |
| Tax rate (%) | 10.1 | 13.1 | 22.4 | 22.9 | 25.1 | 26.0 | 23.6 | 22.3 | 23.8 | 23.1 | 29.0 | 28.7 | 26.9 | 307 bps | -182 bps |
| PAT | 73.5 | 110.2 | 171.8 | 242.3 | 272.9 | 296.9 | 241.6 | 204.0 | 155.0 | 231.9 | 252.5 | 233.8 | 203.1 | 31.0 | -13.1 |
| Minority Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.2 | 2.1 | 1.2 | 1.2 | 1.0 | 0.4 | 0.5 | | |
| PAT after MI | 73.5 | 110.2 | 171.8 | 242.3 | 272.9 | 296.7 | 241.4 | 201.9 | 153.8 | 230.7 | 251.6 | 233.4 | 202.5 | 31.7 | -13.2 |
| EPS (₹) | 1.4 | 2.0 | 3.2 | 4.5 | 5.1 | 5.5 | 4.5 | 3.8 | 2.9 | 4.3 | 4.7 | 4.3 | 3.8 | | |
| No. of Equity Shares (Diluter | 53.7 | 53.7 | 53.7 | 53.7 | 53.7 | 53.7 | 53.7 | 53.7 | 53.7 | 53.7 | 53.7 | 53.7 | 53.7 | | |

Source: ICICI Direct Research

Exhibit 13: ICICI Direct Coverage Universe (Healthcare)

| Company | I-Direct Code | CMP (₹) | TP (₹) | Rating | M Cap (₹ cr) | EPS (₹) | | | | EV/EBITDA(x) | | | | RoCE (%) | | | RoE (%) | | | | |
|-----------------------|---------------|---------|--------|--------|--------------|---------|-------|-------|-------|--------------|------|-------|-------|----------|------|-------|---------|------|------|-------|-------|
| | | | | | | FY21 | FY22 | FY23E | FY24E | FY21 | FY22 | FY23E | FY24E | FY21 | FY22 | FY23E | FY24E | FY21 | FY22 | FY23E | FY24E |
| Hospitals | | | | | | | | | | | | | | | | | | | | | |
| Apollo Hospitals | APOHOS | 4233 | 5,230 | Buy | 60859 | 7.8 | 59.1 | 67.8 | 85.2 | 57.7 | 29.8 | 29.3 | 24.6 | 6.3 | 15.1 | 14.7 | 16.7 | 6.3 | 15.1 | 14.7 | 16.7 |
| Narayana Hrudalaya | NARHRU | 731 | 855 | Buy | 14934 | -0.7 | 16.7 | 27.9 | 25.6 | 86.0 | 23.8 | 18.1 | 16.4 | 1.2 | 20.5 | 23.6 | 19.0 | -1.3 | 23.0 | 28.0 | 20.6 |
| Shaby | SHALJM | 148 | 180 | Buy | 1600 | 3.9 | 5.4 | 7.9 | 11.1 | 17.6 | 13.3 | 9.4 | 7.2 | 6.5 | 8.4 | 12.9 | 15.8 | 5.1 | 6.7 | 9.1 | 11.5 |
| Aster DM | ASTDM | 213 | 300 | Buy | 10664 | 3.0 | 10.5 | 8.1 | 18.5 | 16.0 | 11.5 | 10.6 | 7.2 | 5.4 | 9.0 | 9.1 | 14.0 | 4.4 | 13.3 | 9.3 | 17.5 |
| Healthcare Global | HEAGLO | 279 | 370 | Buy | 3884 | -13.9 | 3.9 | 4.0 | 8.4 | 39.4 | 20.1 | 14.9 | 12.0 | -0.9 | 5.0 | 9.3 | 12.3 | -0.9 | 5.0 | 6.0 | 11.1 |
| Company | | | | | | | | | | | | | | | | | | | | | |
| MNC Pharma | | | | | | | | | | | | | | | | | | | | | |
| Abbott India | ABBIND | 21163 | 21,725 | Hold | 44971 | 325.0 | 375.9 | 452.0 | 543.1 | 65.1 | 56.3 | 46.8 | 39.0 | 33.8 | 36.6 | 38.6 | 37.5 | 26.5 | 28.3 | 30.1 | 29.0 |
| P&G Health | MERLJM | 4034 | 5,235 | Buy | 6697 | 106.5 | 116.0 | 150.0 | 163.6 | 37.9 | 34.8 | 26.9 | 24.7 | 32.2 | 39.8 | 42.5 | 38.0 | 25.1 | 31.2 | 32.0 | 28.5 |
| Sanofi India | SANOFI | 5489 | 6,385 | Hold | 12642 | 207.4 | 410.1 | 265.9 | 255.5 | 26.5 | 13.4 | 20.6 | 21.5 | 32.3 | 33.3 | 40.9 | 50.2 | 24.5 | 25.9 | 30.8 | 38.1 |
| Pfizer | PFIZER | 3856 | 4,505 | Hold | 17639 | 108.8 | 133.9 | 151.4 | 150.2 | 35.5 | 28.8 | 25.5 | 25.7 | 27.6 | 26.1 | 25.0 | 23.7 | 20.8 | 21.4 | 18.8 | 18.1 |
| Pharma | | | | | | | | | | | | | | | | | | | | | |
| Ajanta Pharma | AJAPHA | 1206 | 1,505 | Buy | 15452 | 51.1 | 55.7 | 55.9 | 68.4 | 23.6 | 21.7 | 21.6 | 17.6 | 29.0 | 27.0 | 23.4 | 24.4 | 21.8 | 21.8 | 18.8 | 19.5 |
| Alembic Pharma | ALEMPHA | 539 | 625 | Hold | 10605 | 62.6 | 27.7 | 14.6 | 21.0 | 8.6 | 19.5 | 36.8 | 25.7 | 25.1 | 10.6 | 6.3 | 8.6 | 24.1 | 10.4 | 5.3 | 7.3 |
| Aurobindo Pharma | AURPHA | 410 | 540 | Hold | 23997 | 55.0 | 47.4 | 34.7 | 44.8 | 7.5 | 8.7 | 11.8 | 9.1 | 16.9 | 12.9 | 9.6 | 11.9 | 14.7 | 11.3 | 7.7 | 9.1 |
| Biocon | BIOCON | 235 | 290 | Hold | 28250 | 6.3 | 5.7 | 3.0 | 4.8 | 37.5 | 41.3 | 78.1 | 48.5 | 7.7 | 7.5 | 3.8 | 6.1 | 9.9 | 8.1 | 1.5 | 2.4 |
| Zydus Lifesciences | CADHEA | 433 | 480 | Hold | 43864 | 23.3 | 21.0 | 21.1 | 25.3 | 18.5 | 20.6 | 20.5 | 17.1 | 13.8 | 12.0 | 11.7 | 12.2 | 18.4 | 12.6 | 11.4 | 12.2 |
| Cipla | CIPLA | 1022 | 1,290 | Buy | 82522 | 29.8 | 32.9 | 39.9 | 49.6 | 34.3 | 31.0 | 25.6 | 20.6 | 17.0 | 16.3 | 18.6 | 20.5 | 13.1 | 12.7 | 13.8 | 15.2 |
| Dr Reddy's Labs | DRREDD | 4329 | 5,210 | Buy | 72903 | 117.6 | 127.2 | 226.6 | 205.5 | 36.8 | 34.0 | 19.1 | 21.1 | 13.1 | 13.0 | 21.9 | 19.8 | 11.1 | 11.0 | 16.8 | 13.6 |
| Glenmark Pharma | GLEPHA | 380 | 440 | Hold | 10735 | 32.9 | 42.7 | 36.4 | 50.0 | 11.6 | 8.9 | 10.4 | 7.6 | 13.9 | 14.8 | 16.0 | 16.0 | 13.1 | 13.2 | 10.2 | 12.4 |
| Ipca Laboratories | IPCLAB | 856 | 925 | Hold | 21713 | 44.9 | 34.8 | 24.5 | 35.7 | 19.1 | 24.6 | 34.9 | 24.0 | 27.1 | 17.4 | 13.3 | 16.5 | 24.2 | 16.1 | 10.3 | 13.3 |
| Jubilant Pharmova | JUBLIF | 344 | 395 | Hold | 5483 | 37.4 | 26.0 | 22.5 | 32.8 | 9.2 | 13.2 | 15.3 | 10.5 | 13.7 | 9.0 | 7.8 | 9.7 | 12.6 | 7.8 | 6.4 | 8.6 |
| Lupin | LUPIN | 731 | 680 | Hold | 33247 | 26.9 | 11.9 | 9.1 | 26.4 | 27.2 | 61.6 | 80.0 | 27.7 | 9.6 | 3.4 | 5.9 | 11.3 | 8.8 | 4.4 | 3.3 | 8.8 |
| Natco Pharma | NATPHA | 534 | 660 | Hold | 9748 | 24.2 | 9.3 | 38.6 | 46.3 | 22.1 | 57.3 | 13.9 | 11.5 | 13.1 | 4.6 | 16.8 | 18.5 | 10.7 | 4.0 | 14.6 | 15.2 |
| Sun Pharma | SUNPHA | 1045 | 1,225 | Buy | 250671 | 30.1 | 32.0 | 34.3 | 40.9 | 34.8 | 32.7 | 30.4 | 25.5 | 14.2 | 18.2 | 17.4 | 19.0 | 15.5 | 16.0 | 15.0 | 15.5 |
| Torrent Pharma | TORPHA | 1532 | 1,720 | Hold | 51850 | 37.0 | 32.0 | 37.6 | 45.6 | 41.4 | 47.8 | 40.7 | 33.6 | 17.6 | 19.7 | 18.3 | 21.1 | 21.4 | 18.2 | 18.8 | 19.4 |
| Indoco Remedies | INDREM | 334 | 440 | Buy | 3073 | 10.1 | 16.8 | 17.9 | 26.7 | 33.1 | 19.9 | 18.6 | 12.5 | 11.7 | 17.5 | 15.6 | 21.9 | 12.1 | 17.1 | 15.9 | 19.8 |
| Caplin Point | CAPPOI | 687 | 955 | Buy | 5128 | 81.7 | 85.3 | 79.0 | 74.8 | 8.4 | 8.1 | 8.7 | 9.2 | 25.3 | 24.2 | 23.4 | 0.0 | 20.4 | 20.2 | 20.2 | 18.2 |
| Advanced Enzymes | ADVENZ | 273 | 265 | Reduce | 3053 | 13.1 | 10.7 | 9.6 | 13.3 | 20.9 | 25.5 | 28.6 | 20.5 | 19.4 | 14.3 | 10.9 | 14.0 | 15.1 | 11.0 | 9.0 | 11.3 |
| Hester Biosciences | HESPHA | 1720 | 2,280 | Hold | 1463 | 44.4 | 45.7 | 37.8 | 58.6 | 38.8 | 37.6 | 45.5 | 29.4 | 16.2 | 10.9 | 9.5 | 12.7 | 16.5 | 15.0 | 11.3 | 15.4 |
| API/CRAMS | | | | | | | | | | | | | | | | | | | | | |
| Divi's Lab | DIVLAB | 3343 | 3,685 | Hold | 88751 | 74.7 | 111.5 | 87.7 | 96.9 | 44.7 | 30.0 | 38.1 | 34.5 | 27.6 | 30.2 | 21.1 | 21.8 | 21.3 | 25.2 | 17.7 | 17.2 |
| Hikal | HIKCHE | 344 | 330 | Hold | 4244 | 10.8 | 13.0 | 6.8 | 16.6 | 31.9 | 26.4 | 50.7 | 20.8 | 15.1 | 13.6 | 7.8 | 14.9 | 14.3 | 15.0 | 7.4 | 15.6 |
| Syngene Int. | SYNINT | 561 | 610 | Hold | 22508 | 10.1 | 9.9 | 11.6 | 14.3 | 55.4 | 56.8 | 48.4 | 39.1 | 11.5 | 11.7 | 12.9 | 15.1 | 13.5 | 12.9 | 12.5 | 13.5 |
| Granules India | GRANUL | 295 | 355 | Buy | 7325 | 22.2 | 16.6 | 22.7 | 27.2 | 13.3 | 17.7 | 13.0 | 10.9 | 24.0 | 15.6 | 20.5 | 21.7 | 25.3 | 16.0 | 19.7 | 19.3 |
| Laurus Labs | LAULAB | 330 | 400 | Buy | 18408 | 18.3 | 15.4 | 17.0 | 23.3 | 18.0 | 21.4 | 19.4 | 14.2 | 31.7 | 21.3 | 20.8 | 24.3 | 37.9 | 24.7 | 21.9 | 23.6 |
| Suven Pharmaceuticals | SUVPH | 490 | 530 | Buy | 12467 | 14.2 | 17.8 | 14.7 | 17.7 | 34.4 | 27.5 | 33.2 | 27.7 | 31.2 | 37.5 | 26.0 | 25.6 | 30.7 | 29.7 | 20.6 | 20.5 |

Source: ICICI Direct Research

Financial Summary

| Exhibit 14: Profit and loss statement | | | | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | ₹ crore | | | |
| (Year-end March) | FY22 | FY23E | FY24E | FY25E |
| Revenues | 4,935.6 | 6,022.9 | 6,804.1 | 7,579.3 |
| Growth (%) | 2.5 | 22.0 | 13.0 | 11.4 |
| Raw Material Expenses | 2,193.8 | 2,693.2 | 3,163.9 | 3,486.5 |
| Employee Expenses | 501.5 | 582.7 | 680.4 | 757.9 |
| Other Manufacturing Expenses | 817.8 | 1,038.2 | 986.6 | 1,099.0 |
| Total Operating Expenditure | 3,513.1 | 4,314.1 | 4,830.9 | 5,343.4 |
| EBITDA | 1,422.4 | 1,708.8 | 1,973.2 | 2,235.9 |
| Growth (%) | -8.3 | 20.1 | 15.5 | 13.3 |
| Interest | 102.4 | 154.8 | 147.7 | 124.6 |
| Depreciation | 251.5 | 321.5 | 399.7 | 448.7 |
| Other Income | 15.3 | 5.8 | 6.6 | 7.3 |
| PBT before Exceptional Items | 1,083.9 | 1,238.4 | 1,432.3 | 1,669.9 |
| Less: Forex & Exceptional Items | 0.0 | 0.0 | 0.0 | 0.0 |
| PBT | 1,083.9 | 1,238.4 | 1,432.3 | 1,669.9 |
| Total Tax | 251.4 | 346.8 | 401.2 | 467.7 |
| PAT before MI | 832.4 | 891.5 | 1,031.2 | 1,202.2 |
| Minority Interest | 4.7 | 2.9 | 4.3 | 4.4 |
| PAT | 827.5 | 888.3 | 1,026.9 | 1,197.8 |
| Adjusted PAT | 827.5 | 888.3 | 1,026.9 | 1,197.8 |
| Growth (%) | -15.9 | 7.3 | 15.6 | 16.6 |
| EPS | 15.4 | 16.5 | 19.1 | 22.3 |
| EPS (Adjusted) | 15.4 | 16.5 | 19.1 | 22.3 |

Source: Company, ICICI Direct Research

| Exhibit 15: Cash flow statement | | | | |
|-------------------------------------|---------------|----------------|----------------|----------------|
| | ₹ crore | | | |
| (Year-end March) | FY22 | FY23E | FY24E | FY25E |
| Profit/(Loss) after taxation | 901.6 | 888.3 | 1,026.9 | 1,197.8 |
| Add: Depreciation & Amortization | 251.5 | 321.5 | 399.7 | 448.7 |
| Net Increase in Current Assets | -241.7 | -689.4 | -309.9 | -263.7 |
| Net Increase in Current Liabilities | -100.0 | 328.2 | 300.5 | 326.4 |
| Others | 99.6 | 154.8 | 147.7 | 124.6 |
| CF from operating activities | 911.1 | 1,003.4 | 1,564.9 | 1,833.7 |
| (Inc)/dec in Investments | -39.3 | 27.4 | 0.0 | -27.4 |
| (Inc)/dec in Fixed Assets | -876.7 | -1,000.0 | -1,000.0 | -500.0 |
| Others | 2.1 | 16.5 | 18.2 | 20.0 |
| CF from investing activities | -913.9 | -956.1 | -981.8 | -507.4 |
| Inc / (Dec) in Equity Capital | 4.3 | 0.0 | 0.0 | 0.0 |
| Proceeds/(Repayment) Loan | 270.2 | 300.0 | -300.0 | -300.0 |
| Dividend & Dividend Tax | -85.9 | -88.8 | -102.7 | -300.0 |
| Interest | -85.0 | -154.8 | -147.7 | -119.8 |
| Others | -73.43 | 0.00 | 0.00 | 175.45 |
| CF from financing activities | 30.3 | 56.4 | -550.4 | -544.3 |
| Net Cash flow | 27.4 | 103.7 | 32.7 | 781.9 |
| Opening Cash | 48.5 | 75.9 | 179.6 | 212.3 |
| Closing Cash | 75.9 | 179.6 | 212.3 | 994.2 |
| FCF | 34.4 | 3.4 | 564.9 | 1,333.7 |

Source: Company, ICICI Direct Research

| Exhibit 16: Balance Sheet | | | | |
|-------------------------------|----------------|----------------|----------------|----------------|
| | ₹ crore | | | |
| (Year-end March) | FY22 | FY23E | FY24E | FY25E |
| Equity Capital | 107.5 | 107.5 | 107.5 | 107.5 |
| Reserve and Surplus | 3,243.7 | 4,043.2 | 4,967.4 | 6,045.4 |
| Total Shareholders fund | 3,351.2 | 4,150.7 | 5,074.9 | 6,152.9 |
| Total Debt | 1,914.6 | 2,214.6 | 1,914.6 | 1,614.6 |
| Minority Interest | 7.9 | 7.9 | 7.9 | 7.9 |
| Deferred Tax Liability | 69.1 | 76.0 | 83.6 | 92.0 |
| Other Non Current Liabilities | 150.2 | 165.3 | 181.8 | 200.0 |
| Long term Provisions | 72.7 | 79.9 | 87.9 | 96.7 |
| Source of Funds | 5,565.6 | 6,694.3 | 7,350.6 | 8,164.0 |
| Gross Block - Fixed Assets | 3,510.7 | 4,510.7 | 5,710.7 | 6,410.7 |
| Accumulated Depreciation | 1,104.5 | 1,426.0 | 1,825.8 | 2,274.5 |
| Net Block | 2,406.2 | 3,084.7 | 3,884.9 | 4,136.2 |
| Capital WIP | 813.2 | 813.2 | 613.2 | 413.2 |
| Net Fixed Assets | 3,219.4 | 3,897.9 | 4,498.2 | 4,549.4 |
| Total Intangible Assets | 0.0 | 0.0 | 0.0 | 0.0 |
| Investments | 30.8 | 3.4 | 3.4 | 30.8 |
| Goodwill on Consolidation | 246.3 | 246.3 | 246.3 | 246.3 |
| Inventory | 1,760.3 | 2,148.1 | 2,240.3 | 2,287.9 |
| Cash | 75.9 | 179.6 | 212.3 | 994.2 |
| Debtors | 1,354.2 | 1,652.5 | 1,866.9 | 2,079.5 |
| Loans & Advances & Other CA | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Current Assets | 3,344.6 | 4,137.7 | 4,480.3 | 5,526.0 |
| Creditors | 876.4 | 1,151.9 | 1,394.6 | 1,657.3 |
| Provisions & Other CL | 526.0 | 578.6 | 636.5 | 700.1 |
| Total Current Liabilities | 1,402.4 | 1,730.6 | 2,031.1 | 2,357.4 |
| Net Current Assets | 1,942.2 | 2,407.1 | 2,449.2 | 3,168.5 |
| LT L& A, Other Assets | 126.9 | 139.6 | 153.6 | 168.9 |
| Deferred Tax Assets | 0.0 | 0.0 | 0.0 | 0.0 |
| Application of Funds | 5,565.7 | 6,694.3 | 7,350.7 | 8,164.0 |

Source: Company, ICICI Direct Research

| Exhibit 17: Key ratios | | | | |
|-----------------------------|-------|-------|-------|-------|
| (Year-end March) | FY22 | FY23E | FY24E | FY25E |
| Per share data (₹) | | | | |
| EPS | 15.4 | 16.5 | 19.1 | 22.3 |
| Cash EPS | 18.5 | 20.9 | 24.6 | 28.4 |
| BV per share | 62.4 | 77.2 | 94.4 | 114.5 |
| DPS | 1.5 | 1.7 | 1.9 | 2.2 |
| Cash Per Share | 20.6 | 26.5 | 34.0 | 42.3 |
| Operating Ratios (%) | | | | |
| Gross margins | 55.5 | 55.3 | 53.5 | 54.0 |
| EBITDA margins | 28.8 | 28.4 | 29.0 | 29.5 |
| Net Profit margins | 16.8 | 14.7 | 15.1 | 15.8 |
| Cash Conversion cycle | 247.2 | 235.1 | 197.7 | 166.2 |
| Asset Turnover | 1.4 | 1.3 | 1.2 | 1.2 |
| EBITDA conversion rate | 64.1 | 58.7 | 79.3 | 82.0 |
| Return Ratios (%) | | | | |
| RoE | 24.7 | 21.4 | 20.2 | 19.5 |
| RoCE | 21.3 | 20.8 | 21.5 | 22.0 |
| RoIC | 25.0 | 24.3 | 24.1 | 26.5 |
| Valuation Ratios (x) | | | | |
| P/E | 21.6 | 20.1 | 17.4 | 14.9 |
| EV / EBITDA | 13.8 | 11.6 | 9.9 | 8.3 |
| EV / Revenues | 4.0 | 3.3 | 2.9 | 2.4 |
| Market Cap / Revenues | 3.6 | 3.0 | 2.6 | 2.4 |
| Price to Book Value | 5.3 | 4.3 | 3.5 | 2.9 |
| Solvency Ratios | | | | |
| Debt / Equity | 0.6 | 0.5 | 0.4 | 0.3 |
| Debt / EBITDA | 1.3 | 1.3 | 1.0 | 0.7 |
| Current Ratio | 2.3 | 2.3 | 2.1 | 1.9 |
| Quick Ratio | 1.1 | 1.0 | 1.0 | 1.0 |
| Inventory days | 292.9 | 291.1 | 258.5 | 239.5 |
| Debtor days | 100.1 | 100.1 | 100.1 | 100.1 |
| Creditor days | 145.8 | 156.1 | 160.9 | 173.5 |

Source: Company, ICICI Direct Research

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Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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