

CDMO and Biotech opportunities rising; Biosimilars emerging as key value driver in the medium-term
Hyderabad companies update: Aurobindo Pharmaceuticals, Natco Pharma, Neuland Laboratories, Laurus Labs, Dr. Reddy's Laboratories and Suven Pharmaceuticals.

We looked at key Hyderabad-based companies spread across pharmaceutical industry of Formulations (FDF), APIs, CDMO that are expected to do well in the near-term. FDF players like Aurobindo Pharma, Natco Pharma and Dr. Reddy's are expected to benefit from their efforts in niche space like Injectables, biosimilars, API segment, R&D spends on complex portfolio while CDMO peers like Neuland Laboratories, Laurus Labs and Suven Pharma are expected to ride the global opportunities (healthy order book) flowing from China+1, geopolitical uncertainty on the back of investments in capacities and capabilities. Aurobindo is latest entrant into CDMO Biologics segment with their deal with US-based Merck/MSD. Kindly find key highlights below.

Indian players ready to tap into rising CDMO and Biotech opportunities

CDMO and Biotech business opportunities have been seeing an emerging trend especially for companies based in Hyderabad with likes of Dr. Reddy's, Aurobindo, Laurus, Suven Pharma witnessing healthy traction in terms of order wins, client enquiries, pipeline expansion, etc. While Suven Pharma is in the process of Cohance merger which would expand its CDMO operations, new players like Laurus and Aurobindo (CDMO for Merck/MSD's Biologics business) are laying foundations in CDMO business with additions of clients. Dr. Reddy's already works with top 3/5 innovators in CDMO Biologics initiative besides >100 emerging Biotech companies.

Several companies chasing biosimilar opportunities

Both Aurobindo and Dr. Reddy's are aggressively creating Biosimilar pipeline which comprises of 12-14 products that are under various stages of development, targeting global markets opportunity to the tune of US\$ 50 bn. Launch of biosimilars in regulated markets would likely commence from FY25-26 onwards with scope for valuations to expand further once earnings visibility emerges. We remain positive on Hyderabad-based pharma companies which are creating newer earnings opportunities and continue to invest significantly on R&D pipeline expansion/development. As the cash position for most players continue to remain healthy, there is good potential for M&A/consolidation which can expand their portfolio and regional reach.

Peer comparison

Company	Price (Rs)	Mkt Cap (US\$ mn)	6m avg. daily t/n (US\$ mn)	Rating	TP (Rs)	EPS (Rs)				CAGR FY23-26E (%)	PE (x) FY26E	RoCE (%) FY23
						FY23	FY24E	FY25E	FY26E			
Aurobindo	1,112	7,843	31	BUY	1,375	33	50	63	76	32.5	14.5	8.7
Neuland	6,267	964	4	BUY	7,500	127	241	247	300	33.3	20.9	19.5
Suven Pharma	670	2,048	3	BUY	800	16	13	16	20	7.1	33.7	31.8
Natco	974	2,096	9	BUY	1,125	39	70	79	93	33.3	10.5	17.6
Dr. Reddy's	6,250	12,554	30	BUY	6,720	243	344	367	395	17.5	15.8	26.3
Laurus Labs	405	2,627	10	NA	NA	15	NA	NA	NA	NA	NA	21.5

Source: Company, B&K Research

B&K's view

Overall, we remain positive on Hyderabad companies as they continue to remain focused on key triggers viz Aurobindo (Pen G plant commissioning, USFDA resolution, Injectable de-merger/listing, Biosimilar launches), Neuland (new CMS projects to boost earnings for FY26-27, capex plans remains healthy), Suven Pharma (progress of molecules from Phase III to commercial, synergies from Cohance merger), Dr. Reddy's and Natco (Revlimid earnings continue, potential for M&A). **We maintain our Buy rating on Dr. Reddy's, Aurobindo Pharma, Natco Pharma, Suven Pharma and Neuland Labs, as valuations remain attractive.**

Aurobindo Pharma

CMP (Rs): 1,112

Market cap. (Rs bn): 651

Target price (Rs): 1,375

Maintain BUY

Investing in niche capabilities like injectables, biosimilars and CDMO biologics

Aurobindo Pharma manufactures generic pharmaceuticals and active pharmaceutical ingredients with presence in over 125 countries. It also has a presence in key therapeutic segments such as neurosciences, cardiovascular, anti-retrovirals, anti-diabetics, gastroenterology and cephalosporins, among others and plans to expand its product portfolio with high-value products in oncology, hormones, biosimilars and novel drug delivery solutions like depot injections, inhalers, patches and films. Following are the key takeaways.

• Investing in niche areas like Injectables and Biosimilars

- Eugia Unit 3 (erstwhile Unit IV) operations have commenced, aseptic line was stopped for 15 days to address key observations raised by USFDA in its February 2024 inspection (7 Obs), regular updates being sent to USFDA post CAPA submission. Aurobindo sees strong demand for injectables business in the US, has a well-diversified portfolio, no concentration risk.
- New injectable unit at Vizag coming up at the cost of Rs 5 bn (similar sized capacity as Eugia Unit 3), to be operational soon (has been commissioned today as per press release). Eugia Unit 3 has a capacity of 300 mn vials post-expansion from 140 mn vials, new unit at Vizag to have capacity of 285 mn vials. The new unit at Vizag is set up on 1/5th land as compared to size of Eugia Unit 3. Enough capacities created to meet demand for the next three-four years.
- Total filings at 139 ANDA's from Eugia Unit 3, includes 109 with final approvals and 27 pending with USFDA (includes 3 tentative).
- Eugia remains on track to do annual revenues of US\$ 500-600 mn for FY25-26E.
- Injectable demerger plan on hold for time being owing to USFDA issues pending for Eugia 3/Unit IV, focus is on coming back to full GMP compliance soon. Aurobindo is likely to remain the major holding company for Eugia's Injectable business, plan is to make OFS and list it separately.
- Pen-G plant on track for operations from April 2024 at Kakinada (has been commissioned today as per their Press release). 50 reactors with total installed capacity of 15k mtpa in place for Pen G, current Pen G pricing at US\$ 29 per kg (has corrected from US\$ 35-36 per kg earlier). Total investment for PLI project (Pen G) is US\$ 230 mn till December 2023. Another intermediate 6-APA capacity at 3,600 tpa.
- Strong pipeline of Biosimilars being created after Filgrastim, Peg-filgrastim and Trastuzumab. Future pipeline includes Ranimizumab (Lucentis of Novartis) which is phase III, to cost US\$ 40-50 mn for clinical trials. Followed by Omalizumab (Xolair of Novartis) which has completed Phase I trials, to commence Phase III soon.
- Future pipeline of biosimilars for Aurobindo includes Bevacizumab, Denosumab, Ustekinumab, Tocilizumab. Aurobindo has a total of 14 biosimilar products in its pipeline which is under CurateQ Biologics Pvt. Ltd. Key therapies targeted are Oncology, Immunology, Ophthalmology and Respiratory. Total investments made by Aurobindo for Biosimilar projects is US\$ 305 mn till December 2023. Addressable market opportunity of US\$ 50 bn.
- Aurobindo's CDMO initiative with Merck/MSD for biologics is progressing well, negotiations are still ongoing which is likely to be concluded in the next one-two months (originally scheduled for March 2024). Aurobindo will be establishing a large CMO facility (at Borapatla, near Hyd) for mammalian cell culture products manufacturing, in Phase I the facility would house 2 x 15 KL bioreactors and vial filling line integrated with isolator.

- o The CDMO operations for Biologics are being carried out under TheraNym Biologics Pvt. Ltd. While Aurobindo would be working on development projects for Merck, there would be site-transfer opportunity of commercial products to TheraNym.
- o Branded Generic business in India has been picking up, has a JV with GLS for Oncology drugs.

Outlook and Valuation

We see many positive triggers for Aurobindo that will drive EBITDA margins higher to 18% ex of Revlimid led by 1) strong growth in Global Eugia sales (injectables focus), 2) easing of price erosion in the base portfolio, 3) new product launches in complex therapies, with high value, 4) Revlimid expected to meaningfully contributed in 4Q and thereafter, 5) commercialisation of China plant which will smoothen supply chain for Europe market, 6) launch programme of Biosimilar products as clinical trials fare well and 7) commercialisation of Penicillin G plant.

The stock is trading at premium valuations from its mean average, largely on account of margins recovery in FY24 which is expected to claw back to 20% and upwards aided by the recent Revlimid launch in the US. Due to muted price erosion, capex cycle nearing its end, new complex product launches, Revlimid recently launched and Eugia global sales expected to clock US\$ 500 mn+, we remain positive on the stock and maintain Buy rating with a target price of Rs 1,375 per share, valuing at 18x FY26E EPS of Rs 76.5 per share. At the current market price of Rs 1,112, the stock trades at 18x FY25E EPS of Rs 62.7 and 15x FY26E EPS of Rs 76.5 per share.

Key risks: USFDA compliance issues (risk of OAI status for Eugia Unit 3), delays in regulatory approvals, additional spends in biosimilars vertical, inflationary cost environment and volatile forex movement.

Aurobindo Pharma

Income Statement

Period end (Rs mn)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Net sales	246,171	283,146	318,182	350,927
Growth (%)	5.4	15.0	12.4	10.3
Operating expenses	(210,971)	(232,453)	(257,846)	(279,011)
Operating profit	35,200	50,693	60,336	71,916
Other operating income	2,383	2,668	2,802	2,942
EBITDA	37,583	53,361	63,138	74,858
Growth (%)	(14.3)	42.0	18.3	18.6
Depreciation	(12,446)	(15,127)	(16,093)	(17,206)
Other income	2,906	4,919	5,122	5,302
EBIT	28,043	43,153	52,167	62,953
Finance cost	(1,405)	(2,906)	(2,968)	(2,926)
Exceptional & extraordinary	(396)	-	-	-
Profit before tax	26,242	40,246	49,200	60,027
Tax (current + deferred)	(6,849)	(10,867)	(12,300)	(15,007)
P/(L) for the period	19,394	29,380	36,900	45,020
P/L of Assoc., Min Int, Pref Div	(117)	(140)	(168)	(202)
Reported Profit / (Loss)	19,277	29,240	36,732	44,819
Adjusted net profit	19,277	29,240	36,732	44,819
Growth (%)	(28.7)	51.7	25.6	22.0

Balance Sheet

Period end (Rs mn)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Share capital	586	586	586	586
Reserves & surplus	267,813	287,184	306,749	331,493
Shareholders' funds	268,399	287,770	307,335	332,079
Minority Interest and others	120	122	(9)	(9)
Non-current liabilities	15,443	15,603	15,772	15,949
Long-term borrowings	9,529	9,690	9,858	10,036
Other non-current liabilities	5,914	5,914	5,914	5,914
Current liabilities	114,938	120,664	125,443	127,069
ST borrowings, Curr maturity	60,671	64,831	66,232	64,978
Other current liabilities	54,267	55,833	59,212	62,091
Total (Equity and Liab.)	398,899	424,159	448,542	475,088
Non-current assets	183,443	167,777	172,190	176,824
Fixed assets (Net block)	164,137	150,987	155,185	159,592
Non-current Investments	3,917	4,312	4,528	4,754
Long-term loans and adv.	1,559	1,506	1,506	1,506
Other non-current assets	13,829	10,972	10,972	10,972
Current assets	215,457	256,383	276,351	298,263
Cash & current investment	62,352	76,561	76,987	78,954
Other current assets	153,105	179,821	199,364	219,309
Total (Assets)	398,900	424,160	448,542	475,087
Total debt	70,200	74,521	76,090	75,014
Capital employed	344,632	368,327	389,330	412,998

Cash Flow Statement

Period end (Rs mn)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Profit before tax	26,242	40,246	49,200	60,027
Depreciation	12,446	15,127	16,093	17,206
Change in working capital	(4,484)	(25,080)	(16,164)	(17,066)
Total tax paid	(10,951)	(8,618)	(12,300)	(15,007)
Others	1,405	2,906	2,968	2,926
Cash flow from oper. (a)	24,658	24,581	39,796	48,086
Capital expenditure	(33,783)	(1,995)	(20,290)	(21,614)
Change in investments	4,544	(483)	(296)	(310)
Others	(2,278)	609	-	-
Cash flow from inv. (b)	(31,517)	(1,868)	(20,586)	(21,924)
Free cash flow (a+b)	(6,859)	22,713	19,211	26,162
Debt raised/(repaid)	23,827	4,321	1,570	(1,076)
Dividend (incl. tax)	(1,758)	(1,758)	(1,758)	(1,758)
Others	3,730	(11,155)	(18,676)	(21,444)
Cash flow from fin. (c)	25,799	(8,592)	(18,864)	(24,278)
Net chg in cash (a+b+c)	18,941	14,122	347	1,884

Key Ratios

Period end (%)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Adjusted EPS (Rs)	32.9	49.9	62.7	76.5
Growth	(28.7)	51.7	25.6	22.0
CEPS (Rs)	54.1	75.7	90.2	105.9
Book NAV/share (Rs)	458.1	491.2	524.6	566.8
Dividend/share (Rs)	3.0	3.0	3.0	3.0
Dividend payout ratio	9.1	6.0	4.8	3.9
EBITDA margin	15.1	18.8	19.8	21.3
EBIT margin	11.4	15.2	16.4	17.9
Tax rate	26.1	27.0	25.0	25.0
RoCE	8.7	12.1	13.8	15.7
Total debt/Equity (x)	0.3	0.3	0.2	0.2
Net debt/Equity (x)	0.0	(0.0)	(0.0)	(0.0)
Du Pont Analysis – RoE				
Net margin	7.8	10.3	11.5	12.8
Asset turnover (x)	0.7	0.7	0.7	0.8
Leverage factor (x)	1.4	1.5	1.5	1.4
Return on equity	7.5	10.5	12.3	14.0

Valuations

Period end (x)	Mar 23	Mar 24E	Mar 25E	Mar 26E
PER	33.8	22.3	17.7	14.5
PCE	20.5	14.7	12.3	10.5
Price/Book	2.4	2.3	2.1	2.0
Yield (%)	0.3	0.3	0.3	0.3
EV/EBITDA	17.5	12.2	10.3	8.7

Neuland Laboratories

CMP (Rs): 6,267

Market cap. (Rs bn): 80

Target price (Rs): 7,500

Maintain BUY

Sustained trajectory towards CMS vertical

Incorporated in 1984, Neuland Laboratories is a leading Indian Pharmaceutical manufacturer providing active pharmaceutical ingredients (APIs), complex intermediates and custom manufacturing solutions services to customers. For over three decades, Neuland has been at the forefront of facilitating and accelerating drug development and cGMP manufacturing of APIs. It boasts of 3 USFDA and EU GMP compliant manufacturing facilities with collective capacity of around ~860 KL. The company earns >75% of revenues by exports and has developed more than 300 processes and 75 APIs and has filed over 900+ Regulatory filings in the US (62 active US DMFs), the European Union (EU) and other geographies. 204+ patents filed and received USPTO patent for improved process synthesis of Paliperidone Palmitate. Currently, it has a presence in over 80 countries with the US and Europe being its key markets, accounting for ~75% of total exports. Following are the key takeaways.

• Sustained PAT improvement driven by increasing CMS sales mix

- FY24 is a big earnings year for Neuland led by CMS scale-up of commercial molecules with 9MFY24 PAT at Rs 2.3 bn/EPS of Rs 180 per share and remains on track to achieve our FY24E PAT estimate of Rs 3.1 bn/EPS of Rs 241 per share.
- Considering the high base effect, management guides for earnings moderation in FY25E. While revenue growth is likely to remain in mid-single digits, earnings momentum may take a temporary hit.
- Change in segment-mix between CMS (50% in 9MFY24) and GDS (Niche/Specialty and Prime) could lead to some moderation in EBITDA margins too for FY25E.
- FY25E is likely to be the year of moderation, this is likely due to key innovator project for which Neuland has already supplied quantities in FY24 is expected to get USFDA approval by September 2024 (PDUFA date). Post USFDA approval, commercial supplies are likely to kick-start in 2HFY25E setting the trend for an improved FY26-27E, which are likely to be high-growth years for Neuland. Potential revenues from this opportunity (Xanomeline, January 2024 month supplies was US\$ 5 mn) could be in the range of US\$ 60-80 mn in the next two-three years.
- Overall, CMS pipeline continues to look good as management expects 1-2 commercial approvals every year which can improve share of CMS business from current 50% of revenues to ~60-65% in the next two-three years. Coupled with higher growth in Specialty API's, Neuland expects share of CMS + Specialty API's to improve to 75-80% of total revenues (9MFY24 already at 82% led by CMS ramp-up which is expected to moderate, FY23 share at 64% of revenues).
- At end of December 2023, Neuland has 18 commercial products, 14 under development (Phase III complete but not gone commercial), 7 in Phase III, 20 in Phase II (up 2x YoY).
- Key molecules in CMS include Bempedoic acid for Espirion where Neuland reports healthy supplies on monthly basis (past three months at US\$ 6 mn). This product can ramp-up to revenues of US\$ 40-60 mn over the next two-three years. Other key products include Deutetrabenazine where Neuland has been key supplier for several years.
- On the GDS side, key API's for Neuland includes Paliperidone, Mirtazapine, Levofloxacin, Dorzolamide, Leviteracetam, Sotalol, Donepezil, Brinzolamide, Salmeterol, etc.

- o With steady ramp-up of pipeline in CMS and Specialty API's, Neuland's maintenance capex is expected to go up to Rs 1.0-1.2 bn p.a. from earlier Rs 500-800 mn. Plans are underway to create 2 new production blocks at Unit III for Rs 1.3 bn, which can add 260KL capacity by FY26.
- o Neuland is creating R&D block as well as separate peptide block in CMS segment. Generic peptide market is only expected to open up after 2030 and beyond led by leading drugs like Semaglutide (Ozempic/Wegovy of Novo Nordisk) and Tirzapatide (Mounjaro of Eli Lilly). Neuland has supplied small batch quantities of Tirzapatide to its generic customers for their filing, but the eventual generic market is still some time away.
- o Neuland has recently acquired 5 acres of land adjacent to Unit I for about Rs 172 mn, which is likely to be used for future expansion projects viz. a Pilot plant and Peptide block.
- o The long-term aspiration is to achieve total revenues of Rs 40 bn by FY30 (implies revenue CAGR of 17% from FY24-30E).
- o Neuland has made 2 key appointments in 2HFY24 viz.
 - Dr. Sharadsrikar Kotturi, appointed as Chief Scientific Officer (CSO) in November 2023. He comes from Piramal Pharma where he was responsible for P&L of Discovery services and Peptides business. Prior experience includes Advinus Therapeutics, GVK Biosciences, Urikot Research, Durham, RTI International (USA).
 - Mr Ashutosh Kumar Sinha was appointed as Chief Quality Officer in March 2024. He was previously with Syngene International as AVP and Quality Head (Small Molecule and Client Dedicated Centre). Prior experience includes Ranbaxy, Glenmark, Dr Reddy's, Symbiotec Pharmalab.

Outlook and Valuation

The CMS juggernaut continues to roll for Neuland as it recorded robust 9MFY24 numbers where Sales/PAT jumped 50%/194%, respectively. EBITDA margins averaged around 30% over the last four quarters (slowly inching towards industry leading peers like Divi's, Suven having 35-40% range) for Neuland indicating sustainable shift in sales mix towards high margins CMS (innovator supplies) and specialty API segment. 9MFY24 CMS contribution came in at ~50% of sales that has contributed to the robust performance over the same period. We believe that Neuland (see no impact from global slowdown in funding of biotech companies) has created strong base over the past few years given they continue to expand their CMS pipeline (doubled the number of Phase-2 projects over the last year at 20 molecules) that can act as strong launch pad for sustained high margin revenue stream in the medium to long-term (although there could be quarterly fluctuations). Moreover, it has enough scope for expansion of capacities at Unit III for opportunities flowing from Europe +1 or China +1 policy of global pharmaceutical stakeholders. Moreover, Neuland also seems to be in a good position to capture the GLP-1 peptides opportunity as they possess the required capabilities that could act as another high margin revenue stream over the long-term.

We continue to remain positive on Neuland as we see healthy sustained growth in the CMS led by commercial as well as projects close to commercialisation, increasing interest from the customers with exciting pipelines (leading to healthy order book) and higher operating leverage due to increased capacity utilisation from Unit III. We maintain Buy rating with a target price of Rs 7,500 per share i.e. 25x FY26E EPS of Rs 300 per share. Our target multiple of 25x is at 31% discount to industry averages (20% discount to Neuland's own 10-year average PE) making Neuland attractive despite 4.7x jump in price over the past one year due to robust growth outlook on the earnings front (33% earnings CAGR over FY23-26E). At the current market price of Rs 6,267, it trades at 21x FY26E EPS of Rs 300 per share and 13x FY26E EV/EBITDA.

Key risks: Slippages on the execution front in the CMS division leading to delays in deliveries, higher cost impacting profitability, delays in regulatory approvals and USFDA inspection outcomes.

Neuland Laboratories

Income Statement

Period end (Rs mn)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Net Sales	11,662	15,650	16,757	19,099
Growth (%)	26.3	34.2	7.1	14.0
Operating expenses	(9,194)	(11,127)	(12,120)	(13,523)
Operating profit	2,468	4,523	4,637	5,575
Other operating income	250	280	330	350
EBITDA	2,718	4,803	4,967	5,925
Growth (%)	90.6	76.7	3.4	19.3
Depreciation	(528)	(604)	(668)	(732)
Other income	97	100	110	124
EBIT	2,288	4,299	4,410	5,318
Finance cost	(131)	(155)	(159)	(154)
Profit before tax	2,157	4,144	4,251	5,164
Tax (current + deferred)	(522)	(1,036)	(1,063)	(1,291)
P/(L) for the period	1,635	3,108	3,188	3,873
Reported Profit / (Loss)	1,635	3,108	3,188	3,873
Adjusted net profit	1,635	3,108	3,188	3,873
Growth (%)	156.2	90.1	2.6	21.5

Balance Sheet

Period end (Rs mn)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Share capital	129	129	129	129
Reserves & surplus	9,812	12,856	15,979	19,788
Shareholders' funds	9,941	12,985	16,108	19,917
Non-current liabilities	1,467	1,467	1,467	1,467
Long-term borrowings	781	781	781	781
Other non-current liabilities	686	686	686	686
Current liabilities	4,390	5,742	5,806	6,428
ST borrowings, Curr maturity	608	504	504	504
Other current liabilities	3,782	5,238	5,303	5,924
Total (Equity and Liab.)	15,798	20,194	23,382	27,812
Non-current assets	8,189	8,679	8,830	8,939
Fixed assets (Net block)	7,788	8,083	8,216	8,284
Non-current Investments	199	199	199	199
Long-term loans and adv.	77	272	291	332
Other non-current assets	40	40	40	40
Current assets	7,609	11,515	14,552	18,873
Cash & current investment	591	2,685	5,234	8,241
Other current assets	7,018	8,830	9,318	10,632
Total (Assets)	15,798	20,194	23,382	27,812
Total debt	1,389	1,284	1,284	1,284
Capital employed	12,016	14,955	18,079	21,888

Cash Flow Statement

Period end (Rs mn)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Profit before tax	2,157	4,144	4,251	5,164
Depreciation	528	604	668	732
Change in working capital	(20)	(550)	(443)	(733)
Total tax paid	(540)	(1,036)	(1,063)	(1,291)
Others	131	155	159	154
Cash flow from oper. (a)	2,255	3,317	3,572	4,025
Capital expenditure	(634)	(899)	(800)	(800)
Change in investments	37	-	-	-
Others	(26)	-	-	-
Cash flow from inv. (b)	(623)	(899)	(800)	(800)
Free cash flow (a+b)	1,632	2,418	2,772	3,225
Debt raised/(repaid)	(1,015)	(104)	-	-
Dividend (incl. tax)	-	129	65	65
Others	(229)	(348)	(288)	(283)
Cash flow from fin. (c)	(1,244)	(323)	(223)	(218)
Net chg in cash (a+b+c)	387	2,094	2,549	3,007

Key Ratios

Period end (%)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Adjusted EPS (Rs)	126.7	240.9	247.1	300.2
Growth	156.2	90.1	2.6	21.5
CEPS (Rs)	167.6	287.7	298.9	356.9
Book NAV/share (Rs)	770.6	1,006.5	1,248.7	1,543.9
Dividend/share (Rs)	-	(10.0)	(5.0)	(5.0)
Dividend payout ratio	-	(4.2)	(2.0)	(1.7)
EBITDA margin	22.8	30.2	29.1	30.5
EBIT margin	19.6	27.5	26.3	27.8
Tax rate	24.2	25.0	25.0	25.0
RoCE	19.5	31.9	26.7	26.6
Total debt/Equity (x)	0.1	0.1	0.1	0.1
Net debt/Equity (x)	0.1	(0.1)	(0.2)	(0.3)
Du Pont Analysis – RoE				
Net margin	14.0	19.9	19.0	20.3
Asset turnover (x)	0.8	0.9	0.8	0.7
Leverage factor (x)	1.6	1.6	1.5	1.4
Return on equity	17.8	27.1	21.9	21.5

Valuations

Period end (x)	Mar 23	Mar 24E	Mar 25E	Mar 26E
PER	49.5	26.0	25.4	20.9
PCE	37.4	21.8	21.0	17.6
Price/Book	8.1	6.2	5.0	4.1
Yield (%)	-	(0.2)	(0.1)	(0.1)
EV/EBITDA	30.0	16.5	15.5	12.5

Suven Pharmaceuticals

CMP (Rs): 670

Market cap. (Rs bn): 170

Target price (Rs): 800

Maintain BUY

Many Cohance merger synergies ahead

Suven Pharmaceuticals specialises in process R&D, manufacturing intermediates and fine chemicals for innovators such as Boehringer Ingelheim, Pfizer, Hikma, Bayer, Lonza, Amgen, Corteva Agriscience, Abbvie, etc. In addition to building CRAMS commercial supplies and Specialty chemicals division, Suven has forayed into CDMO for formulations, turning itself into an end-to-end service provider. Suven has established market position in the CRAMS segment and is among the top five players in India who supply high-end intermediaries to innovators. It has a strong financial profile with high profitability (43% EBITDA margins in FY23), one of the best RoCE in the industry (50%) and healthy RoE (27%) is a testimony to Suven's superlative business.

Suven grew at 20% and 47% CAGR in revenue and PAT, respectively, during FY19–23 with margins steady at ~40%. Recently, the erstwhile promoter Mr Venkat Jasti (holding 60% stake), citing uncertainty over succession sold its majority stake (50.1% sold) to private equity player Advent International for Rs 63.13 bn/US\$ 768 mn in December 2022. Subsequently, his stake came down to 9.9% and is expected to decline even more to 6.5% post the merger with Cohance Life Sciences. He has remained on the advisory board for the combined entity. Following are the key takeaways.

- **Suven-Cohance merger to create strong integrated global CDMO player**
 - The current year has been challenging year for Suven Pharma owing to macro factors (Agri/crop-sciences business impacted due to channel inventory and climatic conditions, revenues down 54% YoY in 9MFY24 to Rs 2.1 bn). Even pharma CDMO business was weak in 3QFY24 (down 33% YoY) owing to weak demand and base effect due to Covid-19 drugs. Pharma CDMO revenues were up 7% to Rs 4.8 bn in 9MFY24.
 - Management guides for weak outlook for the next two-three quarters for Suven Pharma owing to global macro factors. Its pipeline of products continues to remain healthy at 13 commercials (10 in Pharma CDMO and 3 in Specialty/Agri CDMO). Phase III projects in Pharma have expanded to 10 intermediates at present (earlier at 5 intermediates).
 - Suven Pharma board has approved merger with Cohance in February 2024 with transaction likely to close in 12-15 months' timeline. Cohance was valued at 30% discount of EV/EBITDA as compared to Suven earnings (merger ratio of 11 shares of Suven for 295 shares held in Cohance was quite fair).
 - A new commercial team has been appointed in place for servicing client needs with a focus on building its pipeline in Phase I & II stage. Several hirings have happened aggressively including setting up of new R&D centre at Genome valley in Hyderabad. The month of February 2024 has seen highest number of RFQ's (up by 100%) which is quite positive for Suven Pharma in the coming years.
 - Suven has been getting a higher wallet share from 3 of its top 5 innovators. There have been lateral wins in contracts, which seems positive.
 - Going ahead, post-merger with Cohance, there exists good potential for growth led by synergies, cost savings, cross-selling opportunities. A major factor between Suven-Cohance has been that customers/clients are uncommon, there are no overlaps which is extremely positive for both entities.
 - The number of global discovery projects which are under development in small molecules have gone up which is extremely positive for Suven Pharma.

- o Cohance CDMO business for Innovators (Avra) is doing extremely well with commercialisation of ADC project (sole supplier for Antibody Drug Conjugate product) which can be expanded by cross-selling its ADC capabilities to Suven's customers in future and vice-versa.

Outlook and Valuation

Suven Pharma's merger with Cohance will create a leading integrated CDMO player in India and globally with multiple engines of growth that will help drive stability in financial performance and healthy growth going forward. Cohance's ADC Platform addition further strengthens Suven's position in the high growth CDMO segment with possibility of adding new technologies to offer attractive solutions to key customers; also adds lifecycle management capabilities for Innovators (including making API's from only intermediates n-1/n-2 earlier). The overall transaction is expected to conclude over the next 12-15 months subject to receipt of all relevant shareholder and regulatory approvals.

Benefits from cross-selling, new technologies and cost savings/efficiencies would help boost EBITDA margins further towards the 40% range from current 35-37% (LTM – FY23) in the coming years, which appears quite positive for Suven. Based on rough calculations (not assumed synergies nor new commercial opportunities which can provide positive upsides to earnings), we estimate the combined entity to achieve a PAT of Rs 9-10 bn by FY26-27E (CAGR of 20-23% over FY24-27E) making current valuations attractive at P/E of 24-27x forward earnings. Combined entities appear poised to emerge stronger post-synergies driven by potential scale-up of pipeline (several molecules > 100+ in pipeline, 5 molecules in Phase III stage for Suven which could go commercial in the coming years) and emerge among top CDMO plays from India.

With superior return ratios of RoCE's (35-42%) and RoE's (24-26%) for FY23-LTM basis, we believe Suven can trade at 35-40x forward earnings as compared to peers like Divi's and Syngene, providing good upsides from current levels. We maintain our Buy rating on Suven Pharma with an unchanged target price of Rs 800 per share i.e. 35x FY26E combined entity EPS of Rs 23 per share (still around 12% discount to Divi's Labs) as it remains our top mid-cap pick in our universe.

Key risks: Higher cost structure impacting margins, execution slippages on key projects and delays in regulatory approvals.

Combined entity valuation scenario

(Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Revenue	20,000	25,872	26,592	23,501	27,536	31,872	36,699
Growth (%)	19.0	29.4	2.8	(11.6)	17.2	15.7	15.1
EBITDA	7,195	9,426	9,597	8,242	10,171	12,343	14,627
EBITDA margin (%)	35.7	36.2	35.8	34.8	36.7	38.4	39.6
Growth (%)	22.8	31.0	1.8	(14.1)	23.4	21.4	18.5
Adjusted PAT	5,039	5,911	6,774	5,729	7,159	8,782	10,435
PAT margin (%)	25.2	22.8	25.5	24.4	26.0	27.6	28.4
Growth (%)	25.4	17.3	14.6	(15.4)	24.9	22.7	18.8
No. of shares (mn)	381	381	381	381	390	390	390
Adjusted EPS (Rs)	13.2	15.5	17.8	15.0	18.4	22.5	26.8
CMP (Rs)	670	670	670	670	670	670	670
P/E (x)	50.7	43.2	37.7	44.6	36.5	29.7	25.0
Implied value at various PE multiples							
30x					551	676	803
35x					650	800	948
40x					735	901	1,071
Implied market cap (Rs mn)							
30x					214,757	263,459	313,054
35x					253,414	311,661	369,403
40x					286,343	351,278	417,405
Implied market cap (US\$ mn)							
30x					2,587	3,174	3,772
35x					3,053	3,755	4,451
40x					3,450	4,232	5,029

Source: Company, B&K Research

Suven Pharmaceuticals

Income Statement

Period end (Rs mn)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Net sales	13,217	10,795	13,003	15,397
Growth (%)	1.1	(18.3)	20.4	18.4
Operating expenses	(7,738)	(6,641)	(7,755)	(8,855)
Operating profit	5,479	4,154	5,247	6,542
Other operating income	186	174	208	232
EBITDA	5,665	4,328	5,455	6,775
Growth (%)	(2.2)	(23.6)	26.0	24.2
Depreciation	(477)	(520)	(612)	(704)
Other income	464	573	637	716
EBIT	5,652	4,381	5,480	6,786
Finance cost	(54)	(44)	(42)	(40)
Profit before tax	5,597	4,337	5,437	6,745
Tax (current + deferred)	(1,484)	(1,084)	(1,359)	(1,686)
P/(L) for the period	4,113	3,253	4,078	5,059
Adjusted net profit	4,113	3,253	4,078	5,059
Growth (%)	8.1	(20.9)	25.4	24.1

Balance Sheet

Period end (Rs mn)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Share capital	255	255	255	255
Reserves & surplus	17,097	19,968	23,664	28,341
Shareholders' funds	17,352	20,223	23,919	28,596
Non-current liabilities	718	716	696	676
Long-term borrowings	53	51	31	11
Other non-current liabilities	665	665	665	665
Current liabilities	1,586	1,686	1,960	2,073
ST borrowings, Curr maturity	651	641	631	621
Other current liabilities	935	1,046	1,329	1,453
Total (Equity and Liab.)	19,656	22,625	26,575	31,345
Non-current assets	9,547	10,345	11,533	12,629
Fixed assets (Net block)	8,284	9,083	10,270	11,366
Non-current Investments	1,171	1,171	1,171	1,171
Other non-current assets	92	92	92	92
Current assets	10,109	12,280	15,041	18,717
Cash & current investment	4,870	7,617	8,901	11,945
Other current assets	5,239	4,663	6,141	6,772
Total (Assets)	19,656	22,625	26,575	31,345
Total debt	703	691	661	631
Capital employed	18,721	21,579	25,246	29,893

Cash Flow Statement

Period end (Rs mn)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Profit before tax	5,597	4,337	5,437	6,745
Depreciation	477	520	612	704
Change in working capital	264	686	(1,194)	(508)
Total tax paid	(1,445)	(1,084)	(1,359)	(1,686)
Others	(409)	(529)	(594)	(675)
Cash flow from oper. (a)	4,484	3,930	2,902	4,581
Capital expenditure	(3,120)	(1,319)	(1,800)	(1,800)
Change in investments	623	-	-	-
Others	575	573	637	716
Cash flow from inv. (b)	(1,922)	(745)	(1,163)	(1,084)
Free cash flow (a+b)	2,563	3,185	1,738	3,496
Debt raised/(repaid)	(263)	(12)	(30)	(30)
Dividend (incl. tax)	(382)	(382)	(382)	(382)
Others	(1,710)	(44)	(42)	(40)
Cash flow from fin. (c)	(2,355)	(438)	(454)	(452)
Net chg in cash (a+b+c)	207	2,747	1,284	3,044

Key Ratios

Period end (%)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Adjusted EPS (Rs)	16.2	12.8	16.0	19.9
Growth	8.1	(20.9)	25.4	24.1
CEPS (Rs)	18.0	14.8	18.4	22.6
Book NAV/share (Rs)	68.2	79.4	94.0	112.3
Dividend/share (Rs)	1.5	1.5	1.5	1.5
Dividend payout ratio	9.3	11.7	9.4	7.5
EBITDA margin	42.3	39.5	41.3	43.3
EBIT margin	42.8	40.6	42.1	44.1
Tax rate	26.5	25.0	25.0	25.0
RoCE	31.8	21.7	23.4	24.6
Net debt/Equity (x)	(0.2)	(0.3)	(0.3)	(0.4)
Du Pont Analysis – RoE				
Net margin	31.1	30.1	31.4	32.9
Asset turnover (x)	0.7	0.5	0.5	0.5
Leverage factor (x)	1.2	1.1	1.1	1.1
Return on equity	25.2	17.3	18.5	19.3

Valuations

Period end (x)	Mar 23	Mar 24E	Mar 25E	Mar 26E
PER	41.5	52.4	41.8	33.7
PCE	37.2	45.2	36.4	29.6
Price/Book	9.8	8.4	7.1	6.0
Yield (%)	0.2	0.2	0.2	0.2
EV/EBITDA	29.4	37.8	29.8	23.5

Natco Pharma

CMP (Rs): 974

Market cap. (Rs bn): 174

Target price (Rs): 1,125

Maintain BUY

Sustained Revlimid benefit; M&A on cards

Natco Pharma is a niche complex formulation portfolio play with international sales contributing close to 76% of sales. It has strong presence in complex products in the US (Copaxone, Revlimid, Doxil, etc.) and oncology franchise in the domestic branded market, while it has entered the complex limited competition Agrichem space with the launch of CTPR (market size of Rs 20 bn). Following are the key takeaways.

- **gRevlimid to be meaningful till FY26; M&A could be additional re-rating catalyst**
 - Revlimid season 3 to start in 4QFY24 with likely higher market share as per settlement with BMS. Natco's partner is Teva in the US market.
 - Remains on track for PAT of Rs 12 bn for FY24E with shared exclusivity on Revlimid likely to continue till January 2026. Till FY26, Revlimid is likely to remain a significant contributor to Natco's earnings.
 - Current cash on books stand at Rs 19 bn which is likely to be up > 2x in the next two years led by Revlimid earnings. This would likely boost its earnings besides the opportunity for share buybacks and dividend payouts.
 - Core business comprising of domestic Pharma, US Generics (ex-Revlimid), RoW markets (15 key markets), Crop protection and API exports is poised to grow on sustainable basis.
 - Potential for M&A's in the domestic branded business and RoW markets which would be funded through cash surplus on books. Natco is a debt-averse company.
 - While FY26 earnings are likely to peak-out led by Revlimid, FY27 would likely see earnings decline led by competition in Revlimid in the US even as Core business continues to grow at healthy pace.
 - **New triggers for Natco would include:**
 - Potential M&As in India and RoW markets which can boost near-term earnings (cash of Rs 20-40 bn can provide revenues/EBITDA of Rs 5-6/1.5-2 bn, at 4-6x EV/Sales and 15-20x EV/EBITDA).
 - Exports of Crop protection agents to US/other regulated and RoW markets (potential for this business to scale-up faster than domestic revenues).
 - Launch of FTF's in US like Olaparib/Lynparza (likely in FY27-28), Apixaban (likely to remain competitive market due to large number of filers).
 - Core earnings for FY27E are likely to be around Rs 7-8 bn (would include interest income on surplus cash).

Outlook and Valuation

On an annual basis, we expect Natco to sustain its high margin trajectory led by key growth verticals such as 1) strong US market contribution led by gRevlimid and benign/stable price erosion environment and 2) continued growth momentum in the subsidiaries (Brazil, Canada being key markets). Ramp-up in the domestic market and Agrichem segment will surely complement growth, in our view. Moreover, it remains confident on mitigating inflationary global cost environment (logistics costs up due to Red Sea crisis), due to its high margin sales mix.

We believe that most of the negatives/concerns like 1) Kothur USFDA regulatory update (status awaited) and 2) near-term high-cost structure impacting margins are now factored in the price. It continues to

scout for inorganic assets (looking to close one large transaction in the EMs) and coupled with any positive update on the US pipeline front could act as re-rating catalyst for the stock.

We maintain Buy rating with an SOTP-based target price of Rs 1,125 per share (unchanged). At the current market price of Rs 974, Natco trades attractively at 12x FY25E EPS of Rs 79 per share and 11x FY26E EPS of Rs 93 per share, respectively.

Key risks: USFDA compliance issues, delays in regulatory approvals, agri business challenges – weather trends, competition and gaining market share.

Natco Pharma – SOTP valuation

Particulars	FY26E	Remarks
Base business		
Core TP @ 21x PE of FY26E EPS of Rs 37	789	Core business ex-Revlimid, valuing 21x for domestic branded, crop business, API's, US and RoW business.
Key products NPV (Rs)	337	NPV for Revlimid Imbruvica, Pomalyst, Lynparza, Kyprolis, Ozempic and Wegovy.
Target price (sum) (Rs)	1,125	
CMP (Rs)	974	
Upside (%)	15	

Source: Company, B&K Research

Natco Pharma

Income Statement

Period end (Rs mn)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Net sales	27,071	39,662	47,189	60,048
Growth (%)	39.2	46.5	19.0	27.2
Operating expenses	(17,715)	(22,827)	(27,326)	(36,884)
Operating profit	9,356	16,835	19,863	23,164
EBITDA	9,356	16,835	19,863	23,164
Growth (%)	255.1	79.9	18.0	16.6
Depreciation	(1,638)	(1,795)	(2,046)	(2,161)
Other income	1,046	1,085	1,151	1,170
EBIT	8,764	16,125	18,968	22,172
Finance cost	(145)	(164)	(159)	(154)
Profit before tax	8,619	15,961	18,809	22,018
Tax (current + deferred)	(1,466)	(3,192)	(4,326)	(5,064)
P/(L) for the period	7,153	12,769	14,483	16,954
Reported Profit / (Loss)	7,153	12,769	14,483	16,954
Adjusted net profit	7,153	12,769	14,483	16,954
Growth (%)	119.2	78.5	13.4	17.1

Balance Sheet

Period end (Rs mn)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Share capital	365	365	365	365
Reserves & surplus	48,373	62,142	77,625	95,578
Shareholders' funds	48,738	62,507	77,990	95,943
Non-current liabilities	1,005	1,005	1,005	1,005
Long-term borrowings	11	11	11	11
Other non-current liabilities	994	994	994	994
Current liabilities	6,831	6,889	7,005	8,911
ST borrowings, Curr maturity	1,656	1,606	1,556	1,506
Other current liabilities	5,175	5,283	5,449	7,405
Total (Equity and Liab.)	56,574	70,401	85,999	105,859
Non-current assets	26,571	26,256	26,395	26,480
Fixed assets (Net block)	24,360	24,291	24,306	24,315
Non-current Investments	873	873	873	873
Long-term loans and adv.	515	269	394	468
Other non-current assets	823	823	823	823
Current assets	30,003	44,146	59,604	79,379
Cash & current investment	8,513	15,879	26,258	37,429
Other current assets	21,490	28,266	33,346	41,950
Total (Assets)	56,574	70,401	85,999	105,859
Total debt	1,667	1,617	1,567	1,517
Capital employed	51,399	65,118	80,551	98,454

Cash Flow Statement

Period end (Rs mn)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Profit before tax	8,619	15,961	18,809	22,018
Depreciation	1,638	1,795	2,046	2,161
Change in working capital	1,081	(6,591)	(5,039)	(6,723)
Total tax paid	(1,643)	(3,192)	(4,326)	(5,064)
Others	(901)	(921)	(992)	(1,015)
Cash flow from oper. (a)	8,794	7,051	10,498	11,376
Capital expenditure	(2,069)	(1,556)	(2,061)	(2,171)
Change in investments	(842)	0	0	0
Others	1,244	1,085	1,151	1,170
Cash flow from inv. (b)	(1,667)	(471)	(910)	(1,001)
Free cash flow (a+b)	7,127	6,581	9,588	10,375
Debt raised/(repaid)	(2,488)	(50)	(50)	(50)
Dividend (incl. tax)	(858)	(1,590)	(1,738)	(2,034)
Others	(379)	2,426	2,579	2,880
Cash flow from fin. (c)	(3,725)	786	791	796
Net chg in cash (a+b+c)	3,402	7,366	10,379	11,171

Key Ratios

Period end (%)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Adjusted EPS (Rs)	39.2	70.0	79.4	92.9
Growth	119.2	78.5	13.4	17.1
CEPS (Rs)	48.2	79.8	90.6	104.7
Book NAV/share (Rs)	267.1	342.5	427.3	525.7
Dividend/share (Rs)	4.7	8.7	9.5	11.1
Dividend payout ratio	12.0	12.5	12.0	12.0
EBITDA margin	34.6	42.4	42.1	38.6
EBIT margin	32.4	40.7	40.2	36.9
Tax rate	17.0	20.0	23.0	23.0
RoCE	17.6	27.7	26.0	24.8
Net debt/Equity (x)	(0.1)	(0.2)	(0.3)	(0.4)
Du Pont Analysis – RoE				
Net margin	26.4	32.2	30.7	28.2
Asset turnover (x)	0.5	0.6	0.6	0.6
Leverage factor (x)	1.2	1.1	1.1	1.1
Return on equity	15.7	23.0	20.6	19.5

Valuations

Period end (x)	Mar 23	Mar 24E	Mar 25E	Mar 26E
PER	24.9	13.9	12.3	10.5
PCE	20.2	12.2	10.8	9.3
Price/Book	3.6	2.8	2.3	1.9
Yield (%)	0.5	0.9	1.0	1.1
EV/EBITDA	18.3	9.7	7.7	6.1

Dr. Reddy's Laboratories

CMP (Rs): 6,250

Market cap. (Rs bn): 1,042

Target price (Rs): 6,720

Maintain BUY

On track with Horizon 2 initiatives

Dr. Reddy's Laboratories is an integrated global pharmaceutical enterprise having strong presence in the US and India market with sizeable scale in the EM/RoW regions. Over the past few years, they have driven growth and profitability through a pragmatic mix of organic and inorganic initiatives by strengthening the portfolio by acquiring select brands and divesting non-core assets. Following are the key takeaways.

- **Focus on complex assets like biosimilars; strong balance sheet to aid in M&A**

- Dr. Reddy's is making progress on Biosimilar's front with 1st launch of Bevacizumab in UK, branded as Versavo. For the 1st set of biosimilars which have been developed (Pegfilgrastim, Rituximab), Dr. Reddy's partner Fresenius Kabi would be responsible for commercialisation in regulated markets.
- Other biosimilars which are in development pipeline includes Tocilizumab (in Phase III studies), total of 12 products in various stages of development. It has 6 commercial products in India + 27 EM's.
- The past two years have seen good earnings performance led by Revlimid launch in the US which has boosted its quarterly earnings (PAT run-rate has improved to Rs 13-14 bn per quarter). Revlimid opportunity is likely to remain a key driver of its earnings till January 2026.
- Post Revlimid, Dr. Reddy's is gearing up for sustainable earnings with investments in R&D pipeline (including Horizon II plans) which includes Complex Gx portfolio of Oncology, General Injectables, OTC, Biosimilars. Under Horizon II, focus would be on ADC's, CGT, CDMO Biologics, Oncology and Auto-Immune diseases.
- Current cash balance is healthy at US\$ 750 mn which would be used for M&A opportunities in its core markets of India, US, RoW markets (incl. China). Dr Reddy's continues to scout for opportunities to boost its presence in India branded business as it aspires to be in Top 5 rank (media articles hinted at Novartis India division acquisition), Biosimilars (rumours of Biosimilar acquisition, as per media articles).

Outlook and Valuation

We continue to like Dr. Reddy's for its diversified global mix comprising of key regions like US (47% of revenues) followed by India (16%), EM's (18%), EU (7%) and PSAI (11%). Focus remains on building healthy pipeline of differentiated assets for most of its key strategic markets including China where it is among largest Indian play. While overall numbers for 9MFY24 (Sales up 14% YoY, EBITDA margins at ~30%) are superior on the back of strong US show (US revenues up 24% to US\$ 1.2 bn for 9MFY24 led by gRevlimid), the management expects Revlimid to remain a meaningful contributor in future as well. Over the longer horizon, Dr. Reddy's continues to invest into Innovation especially with focus on Horizon 2 initiatives like NCEs, Biosimilars, CDMO business, Cell & Gene Therapy, etc. It continues to leverage its strong balance sheet (US\$ 922 mn in CCE, net cash at US\$ 710 mn as on December 2023) for M&A/licencing deals (acquired Menolabs/deal with Coya Therapeutics for biosimilar Abatacept).

Dr. Reddy's remains our top pick in the B&K coverage, and we maintain our Buy rating on the stock with an unchanged target price of Rs 6,720 per share (23x ex-Revlimid implied PE which is at marginal 8% discount to its long-term average PE multiple). At the current market price of Rs 6,250 (mkt cap of US\$ 12.5 bn), Dr. Reddy's trades at 17-16x FY25-26E EPS of Rs 368-395 per share (ex-Revlimid trades at 23-21x FY25-26E EPS of Rs 267-292 per share).

Key risks: DOJ/SEC investigation in Ukraine/CIS countries for marketing practices (potential liability not ascertainable at this juncture), FDA Inspection & Compliance issues, addition of new products to NLEM list and volatile currency impact.

Dr. Reddy's Laboratories

Income Statement

Period end (Rs mn)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Net sales	245,879	279,835	307,915	335,008
Growth (%)	14.7	13.8	10.0	8.8
Operating expenses	(181,307)	(198,963)	(219,390)	(239,028)
Operating profit	64,572	80,872	88,526	95,980
Other operating income	5,907	4,198	3,387	3,685
EBITDA	70,479	85,070	91,913	99,665
Growth (%)	44.2	20.7	8.0	8.4
Depreciation	(12,636)	(12,872)	(13,856)	(15,075)
Other income	4,651	6,037	5,894	6,164
EBIT	62,494	78,235	83,951	90,753
Finance cost	(1,428)	(1,714)	(2,228)	(2,896)
Exceptional & extraordinary	(699)	0	0	0
Profit before tax	60,367	76,521	81,723	87,857
Tax (current + deferred)	(15,300)	(19,130)	(20,431)	(21,964)
P/(L) for the period	45,067	57,391	61,292	65,893
Reported Profit / (Loss)	45,067	57,391	61,292	65,893
Adjusted net profit	40,384	57,391	61,292	65,893
Growth (%)	42.2	42.1	6.8	7.5

Balance Sheet

Period end (Rs mn)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Share capital	833	833	833	833
Reserves & surplus	230,158	280,893	335,529	394,766
Shareholders' funds	230,991	281,726	336,362	395,599
Non-current liabilities	5,018	5,024	5,033	5,045
Long-term borrowings	1,278	1,227	1,178	1,131
Other non-current liabilities	3,740	3,797	3,855	3,914
Current liabilities	85,845	87,493	88,055	90,052
ST borrowings, Curr maturity	12,194	12,290	12,388	12,488
Other current liabilities	73,651	75,203	75,667	77,564
Total (Equity and Liab.)	321,854	374,242	429,450	490,696
Non-current assets	114,914	104,941	106,622	107,105
Fixed assets (Net block)	97,311	86,822	87,965	87,890
Non-current Investments	5,362	5,630	5,912	6,207
Other non-current assets	12,241	12,489	12,745	13,008
Current assets	206,940	269,302	322,828	383,590
Cash & current investment	61,797	90,001	119,485	164,367
Other current assets	145,143	179,301	203,343	219,224
Total (Assets)	321,854	374,242	429,450	490,696
Total debt	13,472	13,517	13,566	13,619
Capital employed	248,203	299,040	353,783	413,132

Cash Flow Statement

Period end (Rs mn)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Profit before tax	60,367	76,521	81,723	87,857
Depreciation	12,636	12,872	13,856	15,075
Change in working capital	(1,194)	(32,606)	(23,578)	(13,984)
Total tax paid	(12,240)	(19,346)	(20,653)	(22,193)
Others	(2,853)	(3,424)	(3,166)	(2,768)
Cash flow from oper. (a)	56,716	34,018	48,182	63,987
Capital expenditure	(20,532)	(2,383)	(15,000)	(15,000)
Change in investments	(23,881)	(5,870)	(6,443)	(7,074)
Others	4,429	5,105	5,361	5,629
Cash flow from inv. (b)	(39,984)	(3,148)	(16,083)	(16,445)
Free cash flow (a+b)	16,732	30,870	32,099	47,543
Equity raised/(repaid)	1	0	0	0
Debt raised/(repaid)	(20,373)	45	49	53
Dividend (incl. tax)	(5,824)	(5,824)	(6,656)	(6,656)
Others	391	(2,489)	(2,170)	(2,837)
Cash flow from fin. (c)	(25,805)	(8,268)	(8,777)	(9,440)
Net chg in cash (a+b+c)	(9,073)	22,602	23,323	38,103

Key Ratios

Period end (%)	Mar 23	Mar 24E	Mar 25E	Mar 26E
Adjusted EPS (Rs)	243.3	344.1	367.5	395.0
Growth	42.2	41.4	6.8	7.5
CEPS (Rs)	319.4	421.2	450.5	485.4
Book NAV/share (Rs)	1,391.5	1,689.0	2,016.6	2,371.7
Dividend/share (Rs)	35.1	34.9	39.9	39.9
Dividend payout ratio	12.9	10.1	10.9	10.1
EBITDA margin	28.0	30.0	29.5	29.4
EBIT margin	25.4	28.0	27.3	27.1
Tax rate	27.5	25.0	25.0	25.0
RoCE	26.3	28.6	25.7	23.7
Total debt/Equity (x)	0.1	0.0	0.0	0.0
Net debt/Equity (x)	(0.2)	(0.3)	(0.3)	(0.4)
Du Pont Analysis – RoE				
Net margin	16.4	20.5	19.9	19.7
Asset turnover (x)	0.8	0.8	0.8	0.7
Leverage factor (x)	1.5	1.4	1.3	1.3
Return on equity	19.2	22.4	19.8	18.0

Valuations

Period end (x)	Mar 23	Mar 24E	Mar 25E	Mar 26E
PER	25.7	18.2	17.0	15.8
PCE	19.6	14.8	13.9	12.9
Price/Book	4.5	3.7	3.1	2.6
Yield (%)	0.6	0.6	0.6	0.6
EV/EBITDA	14.0	11.4	10.2	8.9

Laurus Labs

CMP (Rs): 405

Market cap. (Rs bn): 218

Not Rated

Execution on capex projects will be key going ahead

Laurus Labs is emerging as an API Contract Development and Manufacturing Organization (CDMO) services company while diversifying from an Anti-Retroviral (ARV) Active Pharmaceutical Ingredient (API) company over the past decade. Currently, the company's business operations are diversified into Generics API, Formulations, CDMO Services, and Biotechnology. Laurus is an export-oriented company (72% of sales) catering to clients globally in over 60 countries with CDMO segment servicing exclusively to innovators. Following are the key takeaways.

- **Execution on capex key for value growth ahead**

- After challenging earnings phase for the past two-three quarters (9MFY24 PAT of Rs 850 mn/EPS of Rs 1.6 per share), Laurus guides for QoQ improvement across its business segments led by CDMO, Generics business (Onco API's and FDF/Formulations) and Bio division.
- Laurus sees better momentum in CDMO pipeline and RFP flows have continued with increased commercial opportunities for several later phase NCE projects. Laurus is actively working on 60 projects. CDMO business is likely to achieve revenues of Rs 9-10 bn for FY24 and remains on track for Rs 20 bn revenues by FY26E.
- In both Animal Health and Cropscience CDMO segment where Laurus has 1 client each, it has witnessed project commissioning for Animal Health business, while Cropscience project will likely happen in 2HFY25 (delayed due to global challenging scenario).
- Capex plans continues with investment of Rs 5.8 bn for 9MFY24.
- Laurus has created a JV with KrKa, Slovenia to enable production of finished products for new markets, including India. Laurus to hold 49% stake in JV, while KrKa holds 51%.
- Strategically invested into IIT Kanpur and ImmunoAct (34% stake) for respective programmes, focus on new age discovery medicines in CGT and CaR-T therapy.

Outlook and Valuation

We believe most of the near-term challenges are largely behind us as we expect healthy growth led by 1) expanding CDMO pipeline (actively working on 60 projects) and building capabilities as well as capacities to cater to big pharma clients (Animal Health project commercialised, while Cropscience to commission by 2HFY25), 2) stabilisation of the ARV segment that is still a sizeable chunk (~50% of sales) of the topline and 3) sustained growth momentum in the non-ARV and as well as bio-division. Laurus continues to invest significantly with capex (through internal accruals) of Rs 19 bn over the past two years both for CDMO and non-ARV segments that will play out in the coming quarters, in our view. At the current market price of Rs 405, Laurus trades at 28x of FY23 EPS of Rs 14.7. We do not have rating on the stock.

Key risks: Slowdown/pricing pressure in the ARV segment, execution slippages on the CDMO front and high-cost structure.

Laurus Labs

Income Statement

Period end (Rs mn)	Mar 20	Mar 21	Mar 22	Mar 23
Net Sales	27,586	47,232	48,885	59,207
Growth (%)	23.1	71.2	3.5	21.1
Operating expenses	(22,672)	(32,628)	(35,132)	(44,484)
Operating profit	4,914	14,604	13,754	14,723
Other operating income	731	903	470	1,199
EBITDA	5,645	15,507	14,224	15,922
Growth (%)	58.6	174.7	(8.3)	11.9
Depreciation	(1,873)	(2,051)	(2,515)	(3,241)
Other income	59	237	136	60
EBIT	3,832	13,693	11,845	12,741
Finance cost	(896)	(682)	(1,007)	(1,652)
Profit before tax	2,936	13,011	10,838	11,089
Tax (current + deferred)	(383)	(3,173)	(2,514)	(3,123)
P/(L) for the period	2,553	9,838	8,324	7,966
P/L of Associates, Min Int, Pref Div	0	0	0	(65)
Reported Profit / (Loss)	2,553	9,838	8,324	7,901
Adjusted net profit	2,553	9,838	8,324	7,901
Growth (%)	172.2	285.4	(15.4)	(5.1)

Balance Sheet

Period end (Rs mn)	Mar 20	Mar 21	Mar 22	Mar 23
Share capital	1,069	1,073	1,075	1,077
Reserves & surplus	16,629	24,902	32,437	39,298
Shareholders' funds	17,698	25,976	33,512	40,375
Minority interest and others	0	32	79	111
Non-current liabilities	2,872	6,928	9,280	11,795
Long-term borrowings	1,640	5,386	7,192	8,901
Other non-current liabilities	1,232	1,542	2,088	2,894
Current liabilities	16,934	24,572	26,810	24,323
ST borrowings, Curr maturity	8,928	10,263	11,407	12,162
Other current liabilities	8,005	14,309	15,403	12,160
Total (Equity and Liab.)	37,503	57,507	69,680	76,604
Non-current assets	19,383	26,758	36,234	41,987
Fixed assets (Net block)	17,935	25,328	34,657	39,594
Non-current Investments	34	34	308	499
Long-term loans and adv.	347	423	603	494
Other non-current assets	327	959	599	1,196
Current assets	18,121	30,749	33,446	34,617
Cash & current investment	17	485	759	485
Other current assets	18,103	30,264	32,687	34,132
Total (Assets)	37,503	57,507	69,680	76,604
Total debt	10,569	15,649	18,599	21,063
Capital employed	29,498	43,198	54,277	64,444

Cash Flow Statement

Period end (Rs mn)	Mar 20	Mar 21	Mar 22	Mar 23
Profit before tax	2,936	13,011	10,838	11,089
Depreciation	1,873	2,051	2,515	3,241
Change in working capital	(1,845)	(5,760)	(1,413)	(4,492)
Total tax paid	(383)	(2,256)	(2,069)	(3,126)
Others	837	682	1,007	1,652
Cash flow from oper. (a)	3,417	7,728	10,879	8,364
Capital expenditure	(2,000)	(9,443)	(11,844)	(8,178)
Change in investments	0	0	(274)	(191)
Others	150	(632)	360	(597)
Cash flow from inv. (b)	(1,850)	(10,075)	(11,758)	(8,966)
Free cash flow (a+b)	1,567	(2,348)	(879)	(602)
Equity raised/(repaid)	5	4	2	3
Debt raised/(repaid)	209	5,080	2,950	2,464
Dividend (incl. tax)	(361)	(1,189)	(1,006)	(955)
Others	(859)	(1,080)	(791)	(1,185)
Cash flow from fin. (c)	(1,006)	2,815	1,154	327
Net chg in cash (a+b+c)	561	467	275	(275)

Key Ratios

Period end (%)	Mar 20	Mar 21	Mar 22	Mar 23
Adjusted EPS (Rs)	4.8	18.3	15.5	14.7
Growth	172.2	283.9	(15.5)	(5.3)
CEPS (Rs)	8.3	22.2	20.2	20.7
Book NAV/share (Rs)	33.1	48.4	62.4	75.0
Dividend/share (Rs)	0.5	1.8	1.6	1.5
Dividend payout ratio	12.1	12.1	12.1	12.1
EBITDA margin	19.9	32.2	28.8	26.4
EBIT margin	13.9	29.0	24.2	21.5
Tax rate	13.1	24.4	23.2	28.2
RoCE	13.6	37.7	24.3	21.5
Total debt/Equity (x)	0.6	0.6	0.6	0.5
Net debt/Equity (x)	0.6	0.6	0.5	0.5
Du Pont Analysis – RoE				
Net margin	9.3	20.8	17.0	13.3
Asset turnover (x)	0.8	1.0	0.8	0.8
Leverage factor (x)	2.1	2.2	2.1	2.0
Return on equity	15.3	45.1	28.0	21.4

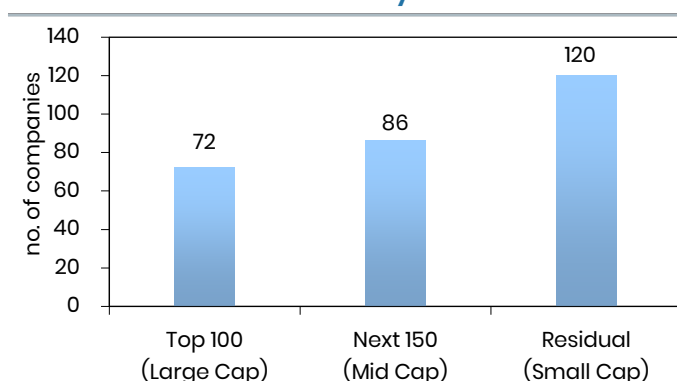
Valuations

Period end (x)	Mar 20	Mar 21	Mar 22	Mar 23
PER	84.8	22.1	26.1	27.6
PCE	48.9	18.3	20.1	19.6
Price/Book	12.2	8.4	6.5	5.4
Yield (%)	0.1	0.5	0.4	0.4
EV/EBITDA	40.2	15.0	16.6	15.0

Rohit Bhat
Research Analyst
rohit.bhat@bksec.com
+91-22-4031 7150

Hrishikesh Patole
Research Analyst
hrishikesh.patole@bksec.com
+91-22-4031 7124

B&K Universe Profile – by AMFI Definition



B&K Securities is the trade name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings

	LARGE CAP (Market Cap > USD 2 bn)	MID & SMALL CAP (Market Cap < USD 2 bn)
BUY	>+15%	>+20%
HOLD	+15% to -10 %	+20% to -15 %
SELL	<-10%	<-15%

Disclaimer: This report was prepared, approved, published and distributed by Batlivala & Karani Securities India Private Limited (“B&K”) located outside of the United States (a “non-US Group Company”), which accepts responsibility for its contents. It is distributed in the U.S. by Enclave Capital, a U.S. registered broker dealer, on behalf of B&K, only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the “Exchange Act”) pursuant to the exemption in Rule 15a-6. Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. (“FINRA”) or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization. Outside the United States, this report is distributed by B&K or an authorized affiliate of B&K.

The report has been compiled or arrived from sources believed to be reliable and in good faith, but no representation or warranty, express or implied is made as to their accuracy, completeness or correctness. B&K has not verified the factual accuracy, assumptions, calculations or completeness of the information. Accordingly, B&K accepts no liability whatsoever for any direct or consequential loss or damage arising from (i) the use of this communication (ii) reliance of any information contained herein, (iii) any error, omission or inaccuracy in any such information or (iv) any action resulting there from. B&K provides the information for the purpose of the intended recipient’s analysis and review and recipients are advised to verify the factual accuracy, assumptions, calculations and completeness of the information.

This report was produced by B&K solely for information purposes and for the use of the recipient. It is not to be reproduced, redistributed under any circumstances and is not to be copied or made available to any person other than the recipient. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions. This document does not constitute an offer of, or an invitation by or on behalf of B&K or its affiliates or any other company to any person, to buy or sell any security.

The views of any Analyst reflected in this report are given in compliance with the Research Analyst Regulations, 2014. All analysts covering the securities/ companies mentioned in this report have complied with the appropriate set of rules, regulations & procedures in their detailed coverage report(s) of the respective securities/companies. It is important to note that any dispute with respect to this Research Report, would not have access to stock exchange investor redressal forum or arbitration mechanism.

Analyst Certification: Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

SEBI DISCLAIMER: “Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors”.

Disclosures, applying to B&K and the Analyst (together with associates and family members)

Ownership interest in the issuer of the securities mentioned	< 1%
Other financial interest in the issuer	None
Other material conflict of interest	None
Compensation/benefits received from issuer/3rd Parties in past 12 months:	
Public offerings managed/co-managed for issuer	None
Fees for merchant banking, investment banking or brokerage services (as percentage of issuer’s turnover)	< 0.1%
Compensation for other services (as percentage of issuer’s turnover)	< 0.1%
Analyst service as officer, director or employee of the issuer	None
Involvement in market-making in the issuer’s securities	None

1. B&K or its Affiliates have not recently been the beneficial owners of 1% or more of the securities mentioned in this report.
2. B&K or its Affiliates have not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. B&K or its Affiliates have not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
4. However, one or more person of B&K or its affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon either on their own account or on behalf of their clients.
5. B&K or its Affiliates may, to the extent permitted by law, act upon or use the above material or the conclusions stated above or the research or analysis on which they are based before the material is published to recipients and from time to time provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.
6. As of the publication of this report, Enclave Capital does not make a market in the subject securities.

Important US Regulatory Disclosures on Subject Companies

Enclave Capital is the distributor of this document in the United States of America. Any US customer wishing to effect transactions in any securities referred to herein or options thereon should do so only by contacting a representative of Enclave Capital and any transaction effected by a U.S. customer in the securities described in this report must be effected through Enclave Capital (19 West 44th Street, suite 1700, New York, NY 10036. Tel No: (646) 454 8600).

Batlivala & Karani Securities India Private Limited

Equity Research Division: Unit No. 1101, 1103, 1104, 11th Floor, Hallmark Business Plaza, Sant Dnyaneshwar Marg, Near Guru Nanak Hospital, Bandra East, Mumbai - 400 051, India.
Tel: +91-22-4007 6000, Fax: +91-22-2651 0024 / +91-22-2640 1520.

Compliance officer: Shirish Shah. Tel.: +91 22 4031 7240. E-Mail: shirish.shah@bksec.com

For any grievance/dispute: Please contact Batlivala & Karani Securities India Pvt. Ltd.
at the above address or email id - investorcomplaints@bksec.com and Phone no. +91 22 40317249 /41.

Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: +91-33-2243 7902.

SEBI Registration No. for Batlivala & Karani Securities India Pvt. Ltd. (Research Entity) is INH300000211

B&K Research is also available on Bloomberg <BNKI>, Thomson First Call & Investext.