

Stellar quarter; revise to Hold

Neuland lab (NLL) has posted revenue of INR2,414mn with a 29.6% YoY increase, which was 12% below our estimate of INR 2,160mn. The revenue growth was mainly driven by strong traction in the CMS (54.6% YoY growth) segment, led by 33 molecules (Development + Commercialize) along with the Prime API segment, which grew by 45% in Q2FY21. EBITDA margin expanded by 359bps to 16.9% level, which was 221bps higher than our estimate driven by improved product mix. Despite higher sales contribution from Prime APIs (47% vs 42% in Q2FY20), strong EBITDA performance signifies that margins in Prime APIs are now stabilising. Management is confident to improve margin profile from the current level on the back of strong order book in CMS business, better traction in GDS business, and cost optimization measures. NLL reported a PAT of INR ~214mn (up 150% YoY) compared to our PAT estimate of INR 147mn led by operationally strong performance. During Sep end, NLL raised the first commercial invoice from Block 4 of its Unit III. It is a multi-product facility and has five production blocks for advance intermediates and API manufacturing. Management believes existing capacity sufficient to cater 2-3 years' revenue growth with some capacity debottlenecking in existing plants.

CMS business to ramp up, with greater profitability

The revenue from Custom Manufacturing Solutions (CMS) (margin-accretive) business clocked a CAGR of 24.8% over FY15-20 and contributed 24% of revenue in FY20. The CMS business involves manufacturing API to customer specifications, designing and developing manufacturing processes, process optimization for competitiveness, and filing of DMF/CMC for API, among others. The company added 20 products (11 APIs and 9 intermediates) to its basket during FY20. We expect the contribution from the high-volume segment to be gradually replaced with the CMS segment and to register healthy revenue growth of ~26.6% over FY20-23, fueled by the ramp-up in supplies of existing products and possible commercialization of 3-4 products from the advanced clinical phase.

Key Financials (Consolidated)					
YE March (INR. Mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	6,668	7,627	9,249	10,387	11,734
Growth %	26%	14%	21%	12%	13%
EBIDTA	584	1,019	1,490	1,781	2,140
Growth%	16%	75%	46%	20%	20%
Net Profit	164	162	740	961	1,233
Growth %	36%	-1%	357%	30%	28%
Diluted EPS	13	13	57	74	96
Growth %	36%	-1%	357%	30%	28%

Profitability & Valuation					
EBIDTA (%)	8.8%	13.4%	16.1%	17.1%	18.2%
NPM (%)	2.5%	2.1%	8.0%	9.2%	10.5%
RoE (%)	2.6%	2.3%	10.0%	11.8%	13.6%
RoCE (%)	3.6%	5.5%	9.4%	12.5%	14.7%
P/E (x)	101.2	102.7	22.5	17.3	13.5
EV/EBITDA (x)	31.5	18.3	12.6	10.3	8.3
P/BV (x)	2.4	2.3	2.2	2.0	1.7

Source: Company, BP Equities Research

Stock Rating

BUY	HOLD	SELL
	Hold	
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (INR)	1,290
Target Price (INR)	1,434
BSE code	524558
NSE Symbol	NEULANLAB
Bloomberg	NLL IN
Reuters	NEUL.BO

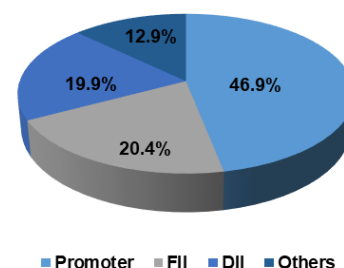
Key Data

Nifty	11,814
52WeekH/L(INR)	1,335/246
O/s Shares (Mn)	12.9
Market Cap (INR bn)	16.5
Face Value (INR)	10

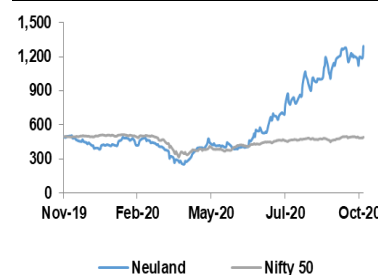
Average volume

3 months	2,23,844
6 months	1,81,908
1 year	1,09,422

Share Holding Pattern (%)



Relative Price Chart



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Neuland Labs Ltd Q2FY21 Quarterly Result

YE March (INR. Mn)	Q2 FY21	Q1 FY21	Q-o-Q change %	Q2 FY20	Y-o-Y change %
Net Sales	2,414	2,054	17.5%	1,862	29.6%
Other Operating Income	0	0		0	
Total Revenue	2,414	2,054	17.5%	1,862	29.6%
Less:					
Raw Material Cost	1,160	1,014	14.4%	906	28.0%
Operating & Manufacturing Expenses	508	355	42.8%	421	20.5%
Employee Cost	338	346	(2.5%)	286	18.0%
Total Expenditure	2,005	1,716	16.9%	1,614	24.3%
EBIDTA	409	338	20.7%	248	64.5%
Less: Depreciation	93	89	4.6%	83	11.9%
EBIT	316	250	26.5%	166	90.9%
Less: Interest	35.1	53.7	(34.6%)	47.8	(26.6%)
Add: Other income	6	7		6	
Profit before tax	287	203	41.2%	123	132.5%
Adjusted Profit before Tax	287	203	41.2%	123	132.5%
Less: Total Tax	72	51	40.8%	38	92.4%
Profit After Tax	214	152	41.4%	86	150.1%
Other comprehensive Income	0	0		0	
Minority Interest	0	0		0	
Adjusted Profit After Tax	214.4	152	41.4%	86	150.1%
Diluted EPS (Rs.)	16.6	11.8	41.4%	6.6	150.1%
Adjusted Diluted EPS	16.6	11.8	41.4%	6.6	150.1%
Diluted No of Share (mn)	12.9	12.9		12.9	
Margin Analysis %			Change in bps		Change in bps
Gross Margin %	51.9%	50.6%	131	51.3%	62
EBIDTA Margin %	16.9%	16.5%	45	13.3%	359
EBIT Margin %	13.1%	12.2%	93	8.9%	420
NPM %	8.9%	7.4%	150	4.6%	428
Effective Tax Rate %	25.3%	25.3%	-8	30.5%	-526

Source: Company, BP Equities Research

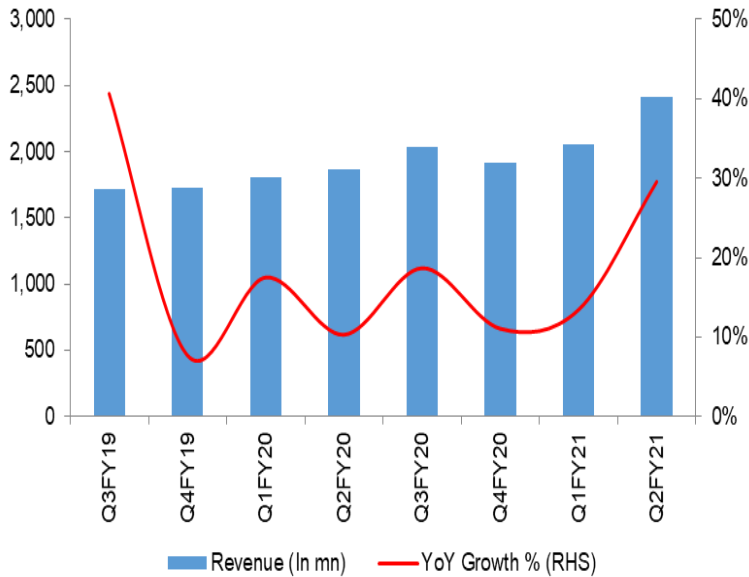
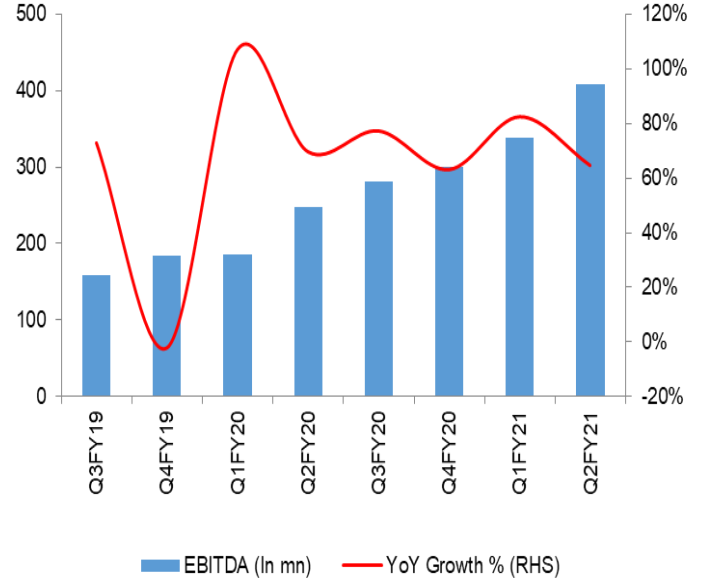
Valuation & Outlook

While generic API manufacturing remains the pillar of NLL's overall business, the ramp-up in the CMS segment (API CRAMS); especially given the fertile product opportunities (like Bilastine and Peptide product) is expected to drive the next phase of growth going forward. Considering the expected strong growth in profitability, healthy balance sheet with improving return ratios, we continue to remain optimistic about the long-term growth prospects of the company. We foresee 15.4% revenue CAGR, 488bps margin expansion over FY20-23E. The balance of portfolio among high value and high volume products will help it clock a faster growth in earnings. Considering better growth visibility, we rise our earnings estimate for FY21 and FY22 by 25% and 15% respectively. Additionally, we roll forward our target price to FY23e EPS of INR 95.6 to arrive at a revised target price of INR 1,434 (earlier INR 973), valuing the stock at 15x P/E. As NLL stock price has run-up almost 2.2x in the last 5 months we have downgraded it to Hold rating (from Buy earlier).

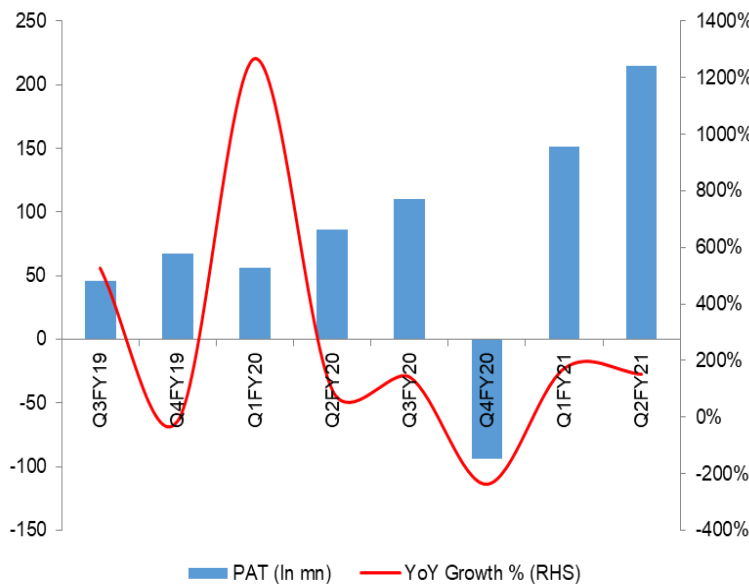
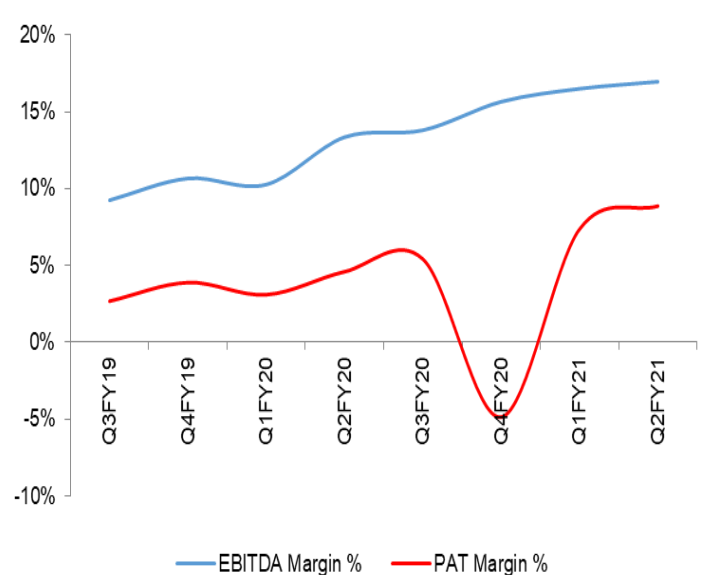
Revenue growth was driven by strong performance of CMS segment (54.6% YoY growth) and Prime API segment (45% YoY growth)

Adj. PAT came 46% above our estimate of INR 147mn on the back of operationally strong performance

Margin improvement was driven by better operating leverage and improved product mix (higher contribution of CMS segment 31% vs 26%)

Revenue growth trend

EBITDA surged significantly due to better product mix


Source: Company, BP Equities Research

Strong operational performance lead to 150% growth in PAT

EBITDA and PAT margin trend


Source: Company, BP Equities Research

**Segment Wise Revenue Break-Up**

INR in mn	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY %	QoQ %
GDS (Prime API + Speciality API)	1,355	1,278	1,321	1,266	1,405	1,280	1,561	1,617	27.7%	4%
% of Sales	79%	74%	73%	68%	69%	67%	76%	67%		
Prime API	806	881	905	782	1,038	808	986	1,135	45.1%	15%
% of Sales	47%	51%	50%	42%	51%	42%	48%	47%		
Speciality API	549	397	416	484	367	472	575	483	-0.3%	-16%
% of Sales	32%	23%	23%	26%	18%	24.6%	28%	20%		
CMS (Com+ Dev)	274	328	344	484	509	531	452	748	54.6%	66%
% of Sales	16%	19%	19%	26%	25%	28%	22%	31%		
Commercial (Com)	190	264	170	395	295	270	210	495	25.3%	131%
% of CMS Sales	69%	80%	49%	82%	58%	51%	46%	66%		
Development (Dev)	84	64	174	89	214	261	221	265	197.2%	18%
% of CMS Sales	31%	20%	51%	18%	42%	49%	54%	34%		
Others	86	121	145	112	122	107	41	48	-56.8%	18%
% of Sales	5%	7%	8%	6%	6%	6%	2%	2%		

Source: Company, BP Equities Research



Profit & Loss A/c (Consolidated)						
YE March (INR. mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue	5,274	6,668	7,627	9,249	10,387	11,734
Growth %	-8.9%	26.4%	14.4%	21.3%	12.3%	13.0%
Total Revenue	5,274	6,668	7,627	9,249	10,387	11,734
Less:						
Raw Material Consumed	2,384	3,662	3,802	4,495	4,973	5,533
Employee Cost	1,030	1,105	1,236	1,359	1,495	1,645
Other Expenses	1,356	1,318	1,571	1,905	2,139	2,416
Total Operating Expenditure	4,770	6,085	6,608	7,759	8,607	9,594
EBITDA	504	584	1,019	1,490	1,781	2,140
Growth %	-52.6%	15.7%	74.6%	46.2%	19.5%	20.2%
Less: Depreciation	221	259	313	346	363	381
EBIT	283	325	706	1,144	1,417	1,759
Growth %	-67.5%	14.8%	117.2%	62.1%	23.9%	24.1%
Interest Paid	189	157	216	194	172	150
Non-operating Income	45	35	39	39	39	39
Extraordinary Income	0	0	0	0	0	0
Profit Before tax	139	203	529	989	1,284	1,648
Tax	19	39	367	249	324	415
Net Profit	121	164	162	740	961	1,233
Adjusted Profit	121	164	162	740	961	1,233
Reported Diluted EPS Rs	9.4	12.7	12.6	57.4	74.5	95.6
Growth %	-74.3%	36.3%	-1.4%	356.5%	29.8%	28.3%
Adjusted Diluted EPS Rs	9.4	12.7	12.6	57.4	74.5	95.6
Growth %	-74.3%	36.3%	-1.4%	356.5%	29.8%	28.3%

Source: Company, BP Equities Research

Cash Flows (Consolidated)						
YE March (INR. Mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
PAT	120.6	164.4	162.1	740.1	960.7	1,232.9
(Less)/Add: Extraordinary Income/Expense	0.0	0.0	0.0	0.0	0.0	0.0
Less: Non Operating Income	(45.3)	(34.9)	(38.9)	(38.9)	(38.9)	(38.9)
Add: Depreciation	221.0	258.6	312.8	345.6	363.2	380.7
Add: Interest Paid	189.3	156.6	215.7	193.8	171.8	149.8
Tax Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	485.6	544.8	651.8	1,240.6	1,456.8	1,724.6
(Inc)/Dec in Current Assets	(274.1)	318.7	(256.8)	(604.7)	(371.4)	(439.2)
Inc/(Dec) in Current Liabilities	332.1	102.0	115.4	618.9	309.5	366.0
Changes in Inventory	(399.8)	(175.7)	(268.9)	(466.8)	(327.8)	(387.7)
Net Cash Generated From Operations	143.8	789.8	241.4	788.0	1,067.2	1,263.7
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	(287.1)	(919.9)	(1,388.9)	(750.0)	(400.0)	(400.0)
(Inc)/Dec in Capital Work In Progress	(1,064.9)	216.2	807.2	0.0	0.0	0.0
(Inc)/Dec in Investment (Strategic)	21.3	(78.4)	(53.1)	145.1	(1.6)	(18.7)
(Inc)/Dec in Investment (Others)	(0.2)	0.0	0.4	0.0	0.0	0.0
Add: Non Operating Income	45.3	34.9	38.9	38.9	38.9	38.9
(Inc)/Dec in Intangible Assets	0.0	2.2	(33.0)	0.0	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	(1,285.6)	(745.0)	(628.5)	(566.1)	(362.7)	(379.8)
Cash Flow from Financing Activities						
Inc/(Dec) in Total Loans	1,401.8	(925.1)	784.4	(250.0)	(250.0)	(250.0)
Inc/(Dec) in Reserves & Surplus	3.6	4,332.7	(29.9)	0.0	(0.0)	0.0
Inc/(Dec) in Equity	0.0	(3,069.0)	0.0	0.0	0.0	0.0
Dividend Paid	0.0	(15.4)	(25.7)	(117.1)	(152.1)	(195.2)
Less: Interest Paid	(189.3)	(156.6)	(215.7)	(193.8)	(171.8)	(149.8)
Adjustments	(26.6)	(5.5)	(34.6)	(0.0)	0.0	0.0
Exceptional Item	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flow from Financing Activities	1,189.5	161.0	478.4	(560.9)	(573.9)	(595.0)
Net Inc/Dec in cash equivalents	47.6	205.9	91.4	(339.0)	130.6	288.9
Opening Balance	124.9	172.6	378.4	469.8	130.8	261.4
Closing Balance Cash and Cash Equivalents	172.6	378.4	469.8	130.8	261.4	550.3

Source: Company, BP Equities Research



Balance Sheet (Consolidated)						
YE March(Rs. mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Liabilities						
Equity Capital	90	129	129	129	129	129
Reserves & Surplus	2,382	6,864	6,971	7,593	8,402	9,440
Equity	5,580	6,993	7,100	7,722	8,531	9,569
Net Worth	5,580	6,993	7,100	7,722	8,531	9,569
Minority Interest						
Net Deferred tax liability/(Asset)	429	433	860	860	860	860
Total Loans	3,027	2,098	2,455	2,205	1,955	1,705
Capital Employed	9,037	9,524	10,415	10,788	11,347	12,135
Assets						
Gross Block	4,835	5,754	7,143	7,893	8,293	8,693
Less: Depreciation	384	638	916	1,261	1,625	2,005
Net Block	4,450	5,117	6,228	6,632	6,669	6,688
Capital WIP	1,261	1,045	238	238	238	238
Investments	227	305	358	213	215	233
Others - A	302	302	302	302	302	302
Current Assets						
Inventories	1,751	1,927	2,195	2,662	2,990	3,378
Sundry Debtors	1,939	1,640	1,899	2,303	2,586	2,921
Cash and Bank Balance	173	378	470	131	261	550
Current Investments	75	75	75	75	75	75
Loans and Advances	371	318	338	441	495	559
Other Current Assets	163	197	175	273	307	346
Total Current Assets	4,472	4,535	5,152	5,884	6,714	7,830
Less: Current Liabilities & Provisions						
Sundry Creditors	1,243	1,223	1,156	1,617	1,817	2,052
Provisions	16	8	23	28	31	35
Other Current Liabilities	418	548	716	869	975	1,102
Total Current Liabilities & Provisions	1,677	1,779	1,895	2,513	2,823	3,189
Capital Applied	9,037	9,524	10,415	10,788	11,347	12,135

Source: Company, BP Equities Research

Key Ratios (Consolidated)						
YE March (INR. mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Key Operating Ratios						
EBITDA Margin (%)	10%	9%	13%	16%	17%	18%
Tax / PBT (%)	13%	19%	69%	25%	25%	25%
Net Profit Margin (%)	2%	2%	2%	8%	9%	11%
RoE (%)	2%	3%	2%	10%	12%	14%
RoCE (%)	9%	4%	5%	9%	13%	15%
Current Ratio (x)	2.7x	2.5x	2.7x	2.3x	2.4x	2.5x
Dividend Payout (%)	0%	9%	16%	16%	16%	16%
Book Value Per Share (Rs.)	433	542	550	599	661	742
Financial Leverage Ratios						
Debt/ Equity (x)	0.5x	0.3x	0.3x	0.3x	0.2x	0.2x
Interest Coverage (x)	2.7x	3.7x	4.7x	7.7x	10.4x	14.3x
Growth Indicators %						
Growth in Net Block (%)	2%	15%	22%	6%	1%	0%
Sales Growth (%)	(9%)	26%	14%	21%	12%	13%
EBITDA Growth (%)	(53%)	16%	75%	46%	20%	20%
Net Profit Growth (%)	(74%)	36%	(1%)	357%	30%	28%
Diluted EPS Growth (%)	(74%)	36%	(1%)	357%	30%	28%
Turnover Ratios						
Debtors Days	134	90	91	91	91	91
Creditors Days	95	73	64	64	64	64
Inventory Days	121	105	105	105	105	105

Source: Company, BP Equities Research

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