

Maintaining strong growth momentum; Hold

Neuland lab (NLL) has posted revenue of INR 2,454mn with a 20.4% YoY increase, which was 14% above our estimate of INR 2,150mn. The revenue growth was mainly driven by strong traction in the CMS (78.6% YoY growth) segment, led by 33 molecules (Development + Commercialize) along with the Speciality API segment, which grew by 20.5% in Q3FY21. EBITDA margin expanded by 510bps to 19% level, which was 76bps higher than our estimate driven by improved product mix. 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 267mn (up 141% YoY) compared to our PAT estimate of INR 202mn led by operationally strong performance and lower tax rate (16.3% vs 29.1% in Q3FY20). Unit 3 has started commercial production and currently shipping out 2 API's from this facility. It is a multi-product facility and has five production blocks for advanced intermediates and API manufacturing. Management believes existing capacity sufficient to cater 2-3 years' revenue growth with some capacity debottlenecking in existing plants. On a RM sourcing front, dependence on China has now reduced to 10% from 50% three years ago due to backward integration in key products and local sourcing.

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 32.8% 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	9,403	10,629	12,086
Growth %	26%	14%	23%	13%	14%
EBIDTA	584	1,019	1,537	1,857	2,235
Growth%	16%	75%	51%	21%	20%
Net Profit	164	162	774	1,013	1,296
Growth %	36%	-1%	377%	31%	28%
Diluted EPS	13	13	60	79	100.5
Growth %	36%	-1%	377%	31%	28%

Profitability & Valuation

EBIDTA (%)	8.8%	13.4%	16.4%	17.5%	18.5%
NPM (%)	2.5%	2.1%	8.2%	9.5%	10.7%
RoE (%)	2.6%	2.3%	10.4%	12.4%	14.2%
RoCE (%)	3.6%	5.5%	9.6%	13.1%	15.3%
P/E (x)	109.8	111.4	23.3	17.8	13.9
EV/EBITDA (x)	33.9	19.7	13.1	10.7	8.7
P/BV (x)	2.6	2.5	2.3	2.1	1.9

Source: Company, BP Equities Research

Stock Rating

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

Sector Outlook

Positive

Stock

CMP (INR)	1,400
Target Price (INR)	1,608
BSE code	524558
NSE Symbol	NEULANLAB
Bloomberg	NLL IN
Reuters	NEUL.BO

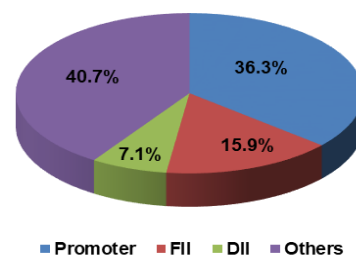
Key Data

Nifty	14.648
52WeekH/L(INR)	1,535/246
O/s Shares (Mn)	12.9
Market Cap (INR bn)	18.1
Face Value (INR)	10

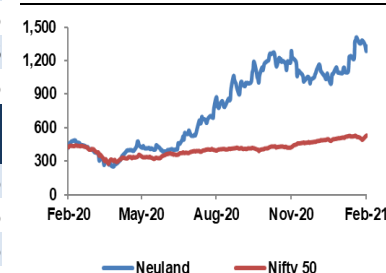
Average volume

3 months	1,39,070
6 months	1,83,060
1 year	1,36,660

Share Holding Pattern (%)



Relative Price Chart



Research Analyst

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Variance Analysis of Q3FY21 Quarterly Result

YE March (Inr. mn)	Q3 FY21	Q2 FY21	Q-o-Q change %	Q3 FY20	Y-o-Y change %
Net Sales	2,454	2,414	1.7%	2,038	20.4%
Other Operating Income	0	0		0	
Total Revenue	2,454	2,414	1.7%	2,038	20.4%
Less:					
Raw Material Cost	1,122	1,160	(3.3%)	1,036	8.3%
Operating & Manufacturing Expenses	487	508	(4.1%)	410	18.6%
Employee Cost	379	338	12.2%	310	22.2%
Total Expenditure	1,988	2,005	(0.9%)	1,757	13.2%
EBIDTA	466	409	14.0%	282	65.5%
Less: Depreciation	104	93	12.3%	78	33.1%
EBIT	362	316	14.6%	203	77.9%
Less: Interest	44.4	35.1	26.4%	56.9	(22.0%)
Add: Other income	2	6		10	
Profit before tax	319	287	11.4%	157	103.9%
Adjusted Profit before Tax	319	287	11.4%	157	103.9%
Less: Total Tax	52	72	(28.1%)	46	14.3%
Profit After Tax	267	214	24.7%	111	140.6%
Other comprehensive Income	0	0		0	
Minority Interest	0	0		0	
Adjusted Profit After Tax	267	214	24.7%	111	140.6%
Diluted EPS (Rs.)	20.7	16.6	24.7%	8.6	140.6%
Adjusted Diluted EPS	20.7	16.6	24.7%	8.6	140.6%
Diluted No of Share (mn)	12.9	12.9		12.9	
Margin Analysis %			Change in bps		Change in bps
Gross Margin %	54.3%	51.9%	232	49.2%	510
EBIDTA Margin %	19.0%	16.9%	206	13.8%	518
EBIT Margin %	14.7%	13.1%	166	10.0%	477
NPM %	10.9%	8.9%	201	5.5%	544
Effective Tax Rate %	16.3%	25.3%	-894	29.1%	-1,279

Revenue growth was driven by strong performance of CMS segment (78.2% YoY growth) and Speciality API segment (20.4% YoY growth)

Adj. PAT came 32.4% above our estimate of INR 202mn on the back of operationally strong performance

Margin improvement was driven by better operating leverage and improved product mix (higher contribution of CMS segment 37% vs 25%)

Source: Company, BP Equities Research

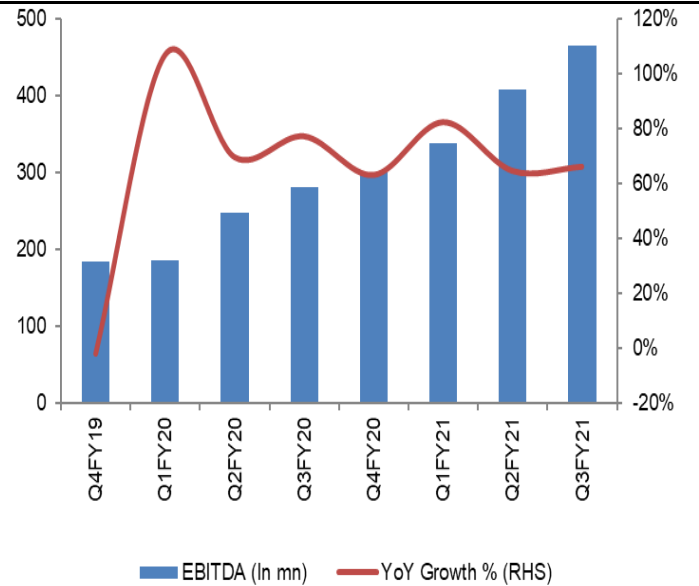
Valuation & Outlook

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 mid to long-term growth prospects of the company. The stock has experienced a significant re-rating in the recent past as the company has been consistently delivering strong growth along with margin expansion. We foresee a 16.6% revenue CAGR, 514bps margin increase 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 raised our earnings estimate for FY22 and FY23 by 6% and 5% respectively. We maintain our Hold recommendation, with a revised price target of INR1,608(earlier INR 1,434), based on 16x FY23e earnings.

Revenue growth trend

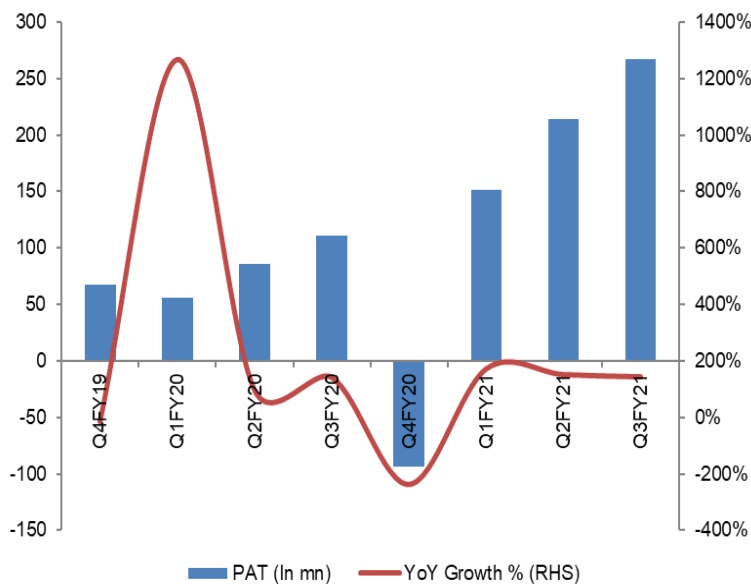


EBITDA surged significantly due to better product mix

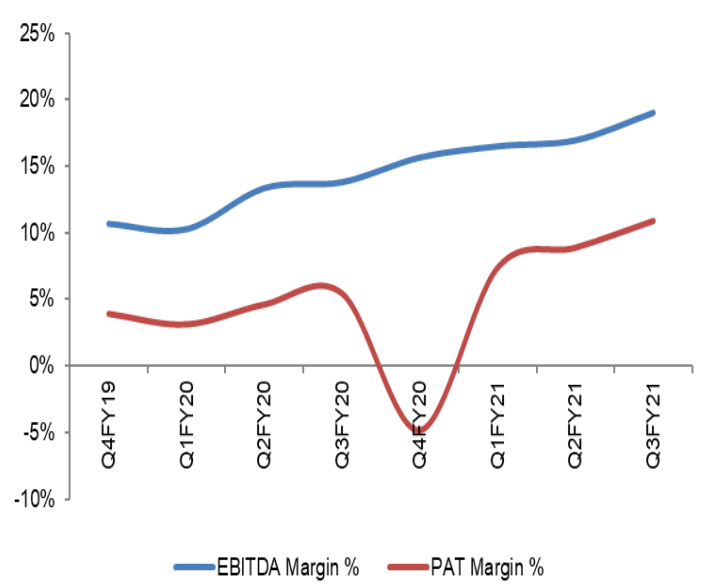


Source: Company, BP Equities Research

Strong operational performance lead to 141% growth in PAT



EBITDA and PAT margin trend



Source: Company, BP Equities Research

**Segment Wise Revenue Break-Up**

INR in mn	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY %	QoQ %
GDS (Prime API + Speciality API)	1,278	1,321	1,266	1,405	1,280	1,561	1,617	1,497	6.5%	-7%
% of Sales	74%	73%	68%	69%	67%	76%	67%	61%		
Prime API	881	905	782	1,038	808	986	1,135	1,055	1.6%	-7%
% of Sales	51%	50%	42%	51%	42%	48%	47%	43%		
Speciality API	397	416	484	367	472	575	483	442	20.5%	-9%
% of Sales	23%	23%	26%	18%	24.6%	28%	20%	18%		
CMS (Com+ Dev)	328	344	484	509	531	452	748	908	78.4%	21%
% of Sales	19%	19%	26%	25%	28%	22%	31%	37%		
Commercial (Com)	264	170	395	295	270	215	495	454	53.9%	-8%
% of CMS Sales	80%	49%	82%	58%	51%	47%	66%	50%		
Development (Dev)	64	174	89	214	261	225	265	454	112.1%	71%
% of CMS Sales	20%	51%	18%	42%	49%	53%	34%	50%		
Others	121	145	112	122	107	41	48	49	-59.8%	2%
% of Sales	7%	8%	6%	6%	6%	2%	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	9,403	10,629	12,086
Growth %	-8.9%	26.4%	14.4%	23.3%	13.0%	13.7%
Total Revenue	5,274	6,668	7,627	9,403	10,629	12,086
Less:						
Raw Material Consumed	2,384	3,662	3,802	4,570	5,088	5,702
Employee Cost	1,030	1,105	1,236	1,359	1,495	1,659
Other Expenses	1,356	1,318	1,571	1,936	2,189	2,489
Total Operating Expenditure	4,770	6,085	6,608	7,866	8,772	9,850
EBITDA	504	584	1,019	1,537	1,857	2,235
Growth %	-52.6%	15.7%	74.6%	50.9%	20.8%	20.4%
Less: Depreciation	221	259	313	348	370	392
EBIT	283	325	706	1,190	1,487	1,844
Growth %	-67.5%	14.8%	117.2%	68.5%	25.0%	24.0%
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	1,035	1,354	1,733
Tax	19	39	367	261	341	437
Net Profit	121	164	162	774	1,013	1,296
Adjusted Profit	121	164	162	774	1,013	1,296
Reported Diluted EPS Rs	9.4	12.7	12.6	60.0	78.5	100.5
Growth %	-74.3%	36.3%	-1.4%	377.5%	30.9%	28.0%
Adjusted Diluted EPS Rs	9.4	12.7	12.6	60.0	78.5	100.5
Growth %	-74.3%	36.3%	-1.4%	377.5%	30.9%	28.0%

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	774.0	1,012.8	1,296.2
(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	347.8	369.7	391.6
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	1,276.7	1,515.4	1,798.8
(Inc)/Dec in Current Assets	(274.1)	318.7	(256.8)	(655.1)	(399.7)	(475.1)
Inc/(Dec) in Current Liabilities	332.1	102.0	115.4	660.8	333.1	395.9
Changes in Inventory	(399.8)	(175.7)	(268.9)	(511.2)	(352.8)	(419.3)
Net Cash Generated From Operations	143.8	789.8	241.4	771.3	1,096.0	1,300.2
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	(287.1)	(919.9)	(1,388.9)	(800.0)	(500.0)	(500.0)
(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)	(616.1)	(462.7)	(479.8)
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)	(122.5)	(160.3)	(205.2)
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	(566.3)	(582.1)	(605.0)
Net Inc/Dec in cash equivalents	47.6	205.9	91.4	(411.1)	51.1	215.4
Opening Balance	124.9	172.6	378.4	469.8	58.7	109.9
Closing Balance Cash and Cash Equivalents	172.6	378.4	469.8	58.7	109.9	325.3

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	7,622	8,474	9,565
Equity	5,580	6,993	7,100	7,751	8,604	9,694
Net Worth	5,580	6,993	7,100	7,751	8,604	9,694
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	10,817	11,419	12,260
Assets						
Gross Block	4,835	5,754	7,143	7,943	8,443	8,943
Less: Depreciation	384	638	916	1,264	1,633	2,025
Net Block	4,450	5,117	6,228	6,680	6,810	6,918
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	2,707	3,060	3,479
Sundry Debtors	1,939	1,640	1,899	2,341	2,646	3,009
Cash and Bank Balance	173	378	470	59	110	325
Current Investments	75	75	75	75	75	75
Loans and Advances	371	318	338	448	506	576
Other Current Assets	163	197	175	278	314	357
Total Current Assets	4,472	4,535	5,152	5,907	6,711	7,821
Less: Current Liabilities & Provisions						
Sundry Creditors	1,243	1,223	1,156	1,644	1,859	2,113
Provisions	16	8	23	28	32	36
Other Current Liabilities	418	548	716	883	998	1,135
Total Current Liabilities & Provisions	1,677	1,779	1,895	2,555	2,889	3,284
Capital Applied	9,037	9,524	10,415	10,817	11,419	12,260

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%	10%	11%
RoE (%)	2%	3%	2%	10%	12%	14%
RoCE (%)	9%	4%	5%	10%	13%	15%
Current Ratio (x)	2.7x	2.5x	2.7x	2.3x	2.3x	2.4x
Dividend Payout (%)	0%	9%	16%	16%	16%	16%
Book Value Per Share (Rs.)	433	542	550	601	667	751
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	7.9x	10.8x	14.9x
Growth Indicators %						
Growth in Net Block (%)	2%	15%	22%	7%	2%	2%
Sales Growth (%)	(9%)	26%	14%	23%	13%	14%
EBITDA Growth (%)	(53%)	16%	75%	51%	21%	20%
Net Profit Growth (%)	(74%)	36%	(1%)	377%	31%	28%
Diluted EPS Growth (%)	(74%)	36%	(1%)	377%	31%	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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