

#### Prime segment grew at better pace ; One-offs impact margins

Neuland lab (NLL) has posted revenue of INR 2,447mn with a 27.5% YoY increase, which was 9.4% above our estimate of INR 2236mn. The revenue growth was mainly driven by strong traction in GDS business (33.8% YoY growth) led by Levetiracetam, Mirtazapine & Labetalol in Prime API segment (48.4% YoY growth) and Dorzolamide, Deferasirox, Entacapone & Donepezil in Speciality API segment (8.9% YoY growth). CMS business grew at a slow pace (3.6% YoY growth) due to the lumpy nature of business. Reported EBITDA margin contracted by 521bps to 10.4% level impacted largely due to onetime expenses of ~INR 150mn (settlement with Income Tax Department for INR. 95.5mn and Provision for National Green Tribunal (NGT) settlement of INR 54mn). Adjusted EBITDA margin came at 16.5% which was 256bps below our estimate due to lower contribution from high margin business (CMS). 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 173mn compared to our estimate of INR 210mn due to moderate operational performance. Management believes existing capacity sufficient to cater 2-3 years' revenue growth with some capacity debottlenecking in existing plants.

#### 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 16.7% revenue CAGR, 277bps margin increase over FY21-23E. 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 7.3% and 9.2% respectively. We maintain our Hold recommendation, with a revised price target of INR 1,975(earlier INR 1608), based on 18x FY23e earnings.

#### Stock Rating

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

#### Sector Outlook

Positive

#### Stock

CMP (INR)	2,260
Target Price (INR)	1,975
BSE code	524558
NSE Symbol	NEULANLAB
Bloomberg	NLL IN
Reuters	NEUL.BO

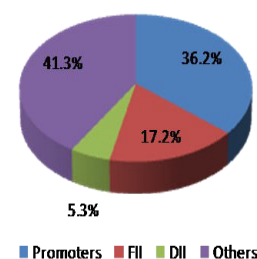
#### Key Data

Nifty	14.697
52WeekH/L(INR)	2840/378
O/s Shares (Mn)	12.8
Market Cap (INR bn)	29
Face Value (INR)	10

#### Average volume

3 months	99,696
6 months	1,19,107
1 year	1,54,867

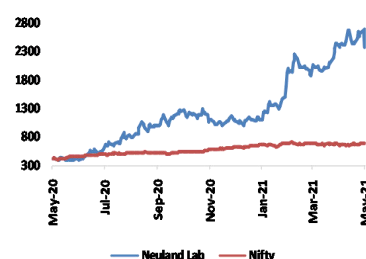
#### Share Holding Pattern (%)



Key Financials (Consolidated)					
YE March (INR. Mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	6,668	7,627	9,369	10,913	12,541
Growth %	26%	14%	23%	16%	15%
EBIDTA	584	1,019	1,468	1,884	2,313
Growth%	16%	75%	44%	28%	23%
Net Profit	164	162	806	1,093	1,416
Growth %	36%	-1%	397%	36%	30%
Diluted EPS	13	13	63	85	109.7
Growth %	36%	-1%	397%	36%	30%

Profitability & Valuation					
EBIDTA (%)	8.8%	13.4%	15.7%	17.3%	18.4%
NPM (%)	2.5%	2.1%	8.6%	10.0%	11.3%
RoE (%)	2.6%	2.3%	10.8%	13.0%	14.8%
RoCE (%)	3.6%	5.5%	9.3%	12.9%	15.9%
P/E (x)	177.3	179.9	36.2	26.7	20.6
EV/EBITDA (x)	52.9	30.6	20.7	15.9	12.6
P/BV (x)	4.2	4.1	3.7	3.3	2.8

#### Relative Price Chart



#### Research Analyst

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Source: Company, BP Equities Research

## Variance Analysis of Q4FY21 Quarterly Result

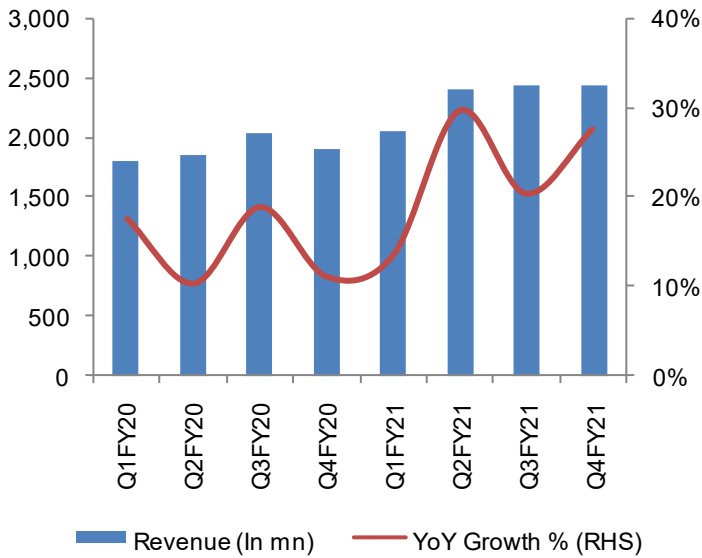
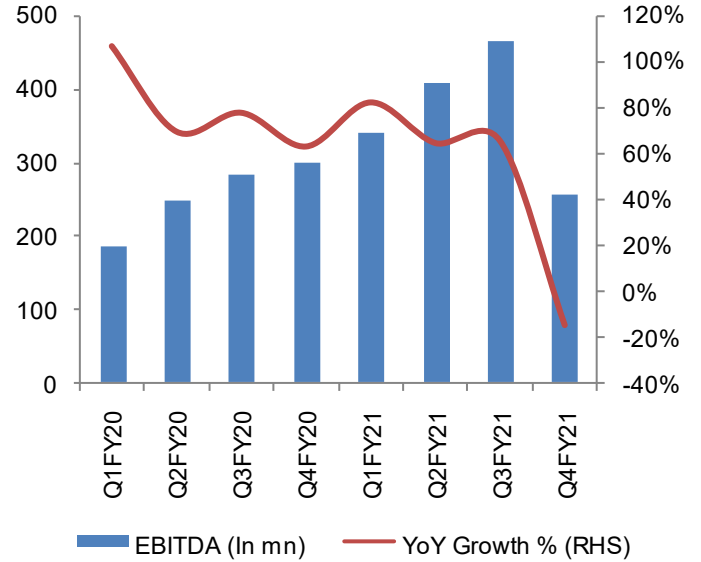
YE March (Inr. mn)	Q4 FY21	Q3 FY21	Q-o-Q change %	Q4 FY20	Y-o-Y change %
Net Sales	2,447	2,454	(0.3%)	1,919	27.5%
Other Operating Income	0	0		0	
<b>Total Revenue</b>	<b>2,447</b>	<b>2,454</b>	<b>(0.3%)</b>	<b>1,919</b>	<b>27.5%</b>
<b>Less:</b>					
Raw Material Cost	1,088	1,122	(3.1%)	861	26.4%
Operating & Manufacturing Expenses	670	487	37.6%	440	52.3%
Employee Cost	434	379	14.6%	318	36.5%
<b>Total Expenditure</b>	<b>2,192</b>	<b>1,988</b>	<b>10.3%</b>	<b>1,619</b>	<b>35.4%</b>
<b>EBIDTA</b>	<b>255</b>	<b>466</b>	<b>(45.2%)</b>	<b>300</b>	<b>(14.9%)</b>
Less: Depreciation	111	104	7.0%	76	46.1%
<b>EBIT</b>	<b>144</b>	<b>362</b>	<b>(60.3%)</b>	<b>224</b>	<b>(35.8%)</b>
Less: Interest	45.8	44.4	3.1%	70.7	(35.2%)
Add: Other income	146	2		18	
<b>Profit before tax</b>	<b>244</b>	<b>319</b>	<b>(23.7%)</b>	<b>171</b>	<b>42.8%</b>
<b>Adjusted Profit before Tax</b>	<b>244</b>	<b>319</b>	<b>(23.7%)</b>	<b>171</b>	<b>42.8%</b>
Less: Total Tax	71	52	36.2%	264	(73.1%)
<b>Profit After Tax</b>	<b>173</b>	<b>267</b>	<b>(35.3%)</b>	<b>-94</b>	<b>284.9%</b>
Other comprehensive Income	0	0		0	
Minority Interest	0	0		0	
<b>Adjusted Profit After Tax</b>	<b>173</b>	<b>267</b>	<b>(35.3%)</b>	<b>-94</b>	<b>284.9%</b>
<b>Diluted EPS (Rs.)</b>	<b>13.4</b>	<b>20.7</b>	<b>(35.3%)</b>	<b>-7.2</b>	<b>284.9%</b>
<b>Adjusted Diluted EPS</b>	<b>13.4</b>	<b>20.7</b>	<b>(35.3%)</b>	<b>-7.2</b>	<b>284.9%</b>
Diluted No of Share (mn)	12.9	12.9		12.9	
<b>Margin Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>
Gross Margin %	55.5%	54.3%	128	55.1%	41
<b>EBIDTA Margin %</b>	<b>10.4%</b>	<b>19.0%</b>	<b>-856</b>	<b>15.6%</b>	<b>-521</b>
EBIT Margin %	5.9%	14.7%	-888	11.7%	-579
<b>NPM %</b>	<b>7.1%</b>	<b>10.9%</b>	<b>-383</b>	<b>-4.9%</b>	<b>1,194</b>
Effective Tax Rate %	29.1%	16.3%	1,278	154.8%	-12,566

Source: Company, BP Equities Research

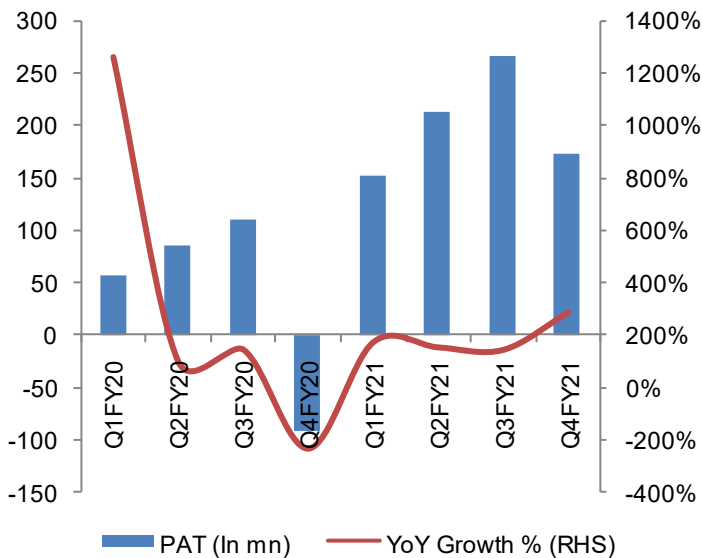
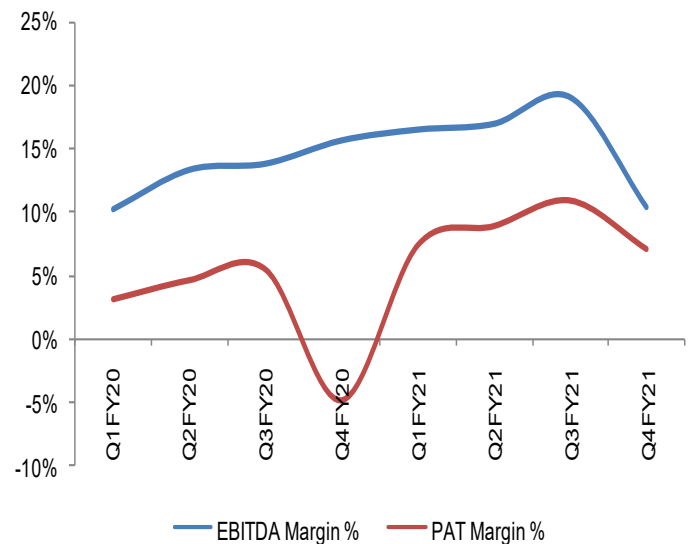
Revenue growth was driven by strong performance of Prime API segment (48% YoY growth)

Adj. PAT came 17.7% below our estimate of INR 210mn due to moderate operational performance

Margin decline was impacted largely due to onetime expenses of ~INR 150mn (settlement with Income Tax Department for INR. 95.5mn and Provision for National Green Tribunal (NGT) settlement of INR. 54mn).

**Revenue growth trend**

**EBITDA largely impacted by one-offs**


Source: Company, BP Equities Research

**Favourable base resulted in strong PAT growth**

**EBITDA and PAT margin trend**


Source: Company, BP Equities Research

**Segment Wise Revenue Break-Up**

INR in mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY %	QoQ %
<b>GDS (Prime API + Speciality API)</b>	1,321	1,266	1,407	1,280	1,561	1,617	1,497	1,713	34%	14%
% of Sales	73%	68%	69%	67%	76%	67%	61%	70%		
<b>Prime API</b>	905	782	1,040	808	986	1,135	1,055	1,199	48%	14%
% of Sales	50%	42%	51%	42%	48%	47%	43%	49%		
<b>Speciality API</b>	416	484	367	472	575	483	442	514	9%	16%
% of Sales	23%	26%	18%	24.6%	28%	20%	18%	21%		
<b>CMS ( Com+ Dev)</b>	344	484	510	531	452	748	908	550.6	4%	-39%
% of Sales	19%	26%	25%	28%	22%	31%	37%	23%		
Commercial ( % of CMS sales)	49%	82%	58%	51%	47%	66%	50%	38%		
Development ( % of CMS sales)	51%	18%	42%	49%	53%	34%	50%	62%		
<b>Others</b>	145	112	122	107	41	48	49	184	71%	274%
% of Sales	8%	6%	6%	6%	2%	2%	2%	8%		

Source: Company, BP Equities Research



## Profit &amp; Loss A/c (Consolidated)

YE March (INR. mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Revenue</b>	<b>5,274</b>	<b>6,668</b>	<b>7,627</b>	<b>9,369</b>	<b>10,913</b>	<b>12,541</b>
Growth %	-8.9%	26.4%	14.4%	22.8%	16.5%	14.9%
<b>Total Revenue</b>	<b>5,274</b>	<b>6,668</b>	<b>7,627</b>	<b>9,369</b>	<b>10,913</b>	<b>12,541</b>
<b>Less:</b>						
Raw Material Consumed	2,384	3,662	3,802	4,384	5,030	5,696
Employee Cost	1,030	1,105	1,236	1,497	1,647	1,828
Other Expenses	1,356	1,318	1,571	2,019	2,352	2,703
<b>Total Operating Expenditure</b>	<b>4,770</b>	<b>6,085</b>	<b>6,608</b>	<b>7,901</b>	<b>9,029</b>	<b>10,228</b>
<b>EBITDA</b>	<b>504</b>	<b>584</b>	<b>1,019</b>	<b>1,468</b>	<b>1,884</b>	<b>2,313</b>
Growth %	-52.6%	15.7%	74.6%	44.1%	28.3%	22.8%
Less: Depreciation	221	259	313	397	435	464
<b>EBIT</b>	<b>283</b>	<b>325</b>	<b>706</b>	<b>1,071</b>	<b>1,448</b>	<b>1,849</b>
Growth %	-67.5%	14.8%	117.2%	51.7%	35.2%	27.7%
Interest Paid	189	157	216	179	148	117
Non-operating Income	45	35	39	161	161	161
Extraordinary Income	0	0	0	0	0	0
<b>Profit Before tax</b>	<b>139</b>	<b>203</b>	<b>529</b>	<b>1,053</b>	<b>1,461</b>	<b>1,893</b>
Tax	19	39	367	247	368	477
<b>Net Profit</b>	<b>121</b>	<b>164</b>	<b>162</b>	<b>806</b>	<b>1,093</b>	<b>1,416</b>
<b>Adjusted Profit</b>	<b>121</b>	<b>164</b>	<b>162</b>	<b>806</b>	<b>1,093</b>	<b>1,416</b>
<b>Reported Diluted EPS Rs</b>	<b>9.4</b>	<b>12.7</b>	<b>12.6</b>	<b>62.5</b>	<b>84.7</b>	<b>109.7</b>
Growth %	-74.3%	36.3%	-1.4%	397.4%	35.6%	29.5%
<b>Adjusted Diluted EPS Rs</b>	<b>9.4</b>	<b>12.7</b>	<b>12.6</b>	<b>62.5</b>	<b>84.7</b>	<b>109.7</b>
Growth %	-74.3%	36.3%	-1.4%	397.4%	35.6%	29.5%

Source: Company, BP Equities Research

## Cash Flows (Consolidated)

YE March (INR. Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>PAT</b>	<b>120.6</b>	<b>164.4</b>	<b>162.1</b>	<b>806.3</b>	<b>1,093.0</b>	<b>1,415.8</b>
(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)	(161.0)	(161.0)	(161.0)
Add: Depreciation	221.0	258.6	312.8	396.8	435.2	463.9
Add: Interest Paid	189.3	156.6	215.7	179.0	148.1	117.3
Tax Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
<b>Operating Profit before Working Capital Changes</b>	<b>485.6</b>	<b>544.8</b>	<b>651.8</b>	<b>1,221.2</b>	<b>1,515.4</b>	<b>1,836.0</b>
(Inc)/Dec in Current Assets	(274.1)	318.7	(256.8)	(339.2)	(616.9)	(504.0)
Inc/(Dec) in Current Liabilities	332.1	102.0	115.4	1,220.7	842.5	590.5
Changes in Inventory	(399.8)	(175.7)	(268.9)	(280.6)	(407.9)	(430.3)
<b>Net Cash Generated From Operations</b>	<b>143.8</b>	<b>789.8</b>	<b>241.4</b>	<b>1,822.0</b>	<b>1,333.1</b>	<b>1,492.3</b>
<b>Cash Flow from Investing Activities</b>						
(Inc)/Dec in Fixed Assets	(287.1)	(919.9)	(1,388.9)	(1,138.6)	(800.0)	(600.0)
(Inc)/Dec in Capital Work In Progress	(1,064.9)	216.2	807.2	65.0	0.0	0.0
(Inc)/Dec in Investment (Strategic)	21.3	(78.4)	(53.1)	133.1	10.4	(18.7)
(Inc)/Dec in Investment (Others)	(0.2)	0.0	0.4	(79.0)	0.0	0.0
Add: Non Operating Income	45.3	34.9	38.9	161.0	161.0	161.0
(Inc)/Dec in Intangible Assets	0.0	2.2	(33.0)	28.6	0.0	0.0
<b>Net Cash Flow from/(used in) Investing Activities</b>	<b>(1,285.6)</b>	<b>(745.0)</b>	<b>(628.5)</b>	<b>(830.0)</b>	<b>(628.7)</b>	<b>(457.7)</b>
<b>Cash Flow from Financing Activities</b>						
Inc/(Dec) in Total Loans	1,401.8	(925.1)	784.4	(1,047.6)	(250.0)	(250.0)
Inc/(Dec) in Reserves & Surplus	3.6	4,332.7	(29.9)	(2.8)	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)	(38.5)	(52.2)	(67.6)
Less: Interest Paid	(189.3)	(156.6)	(215.7)	(179.0)	(148.1)	(117.3)
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
<b>Net Cash Flow from Financing Activities</b>	<b>1,189.5</b>	<b>161.0</b>	<b>478.4</b>	<b>(1,267.9)</b>	<b>(450.3)</b>	<b>(434.9)</b>
<b>Net Inc/Dec in cash equivalents</b>	<b>47.6</b>	<b>205.9</b>	<b>91.4</b>	<b>(275.8)</b>	<b>254.1</b>	<b>599.6</b>
<b>Opening Balance</b>	<b>124.9</b>	<b>172.6</b>	<b>378.4</b>	<b>469.8</b>	<b>194.0</b>	<b>448.1</b>
<b>Closing Balance Cash and Cash Equivalents</b>	<b>172.6</b>	<b>378.4</b>	<b>469.8</b>	<b>194.0</b>	<b>448.1</b>	<b>1,047.7</b>

Source: Company, BP Equities Research



## Balance Sheet (Consolidated)

YE March( Rs. mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>						
Equity Capital	90	129	129	129	129	129
Reserves & Surplus	2,382	6,864	6,971	7,736	8,776	10,125
<b>Equity</b>	<b>5,580</b>	<b>6,993</b>	<b>7,100</b>	<b>7,865</b>	<b>8,905</b>	<b>10,254</b>
<b>Net Worth</b>	<b>5,580</b>	<b>6,993</b>	<b>7,100</b>	<b>7,865</b>	<b>8,905</b>	<b>10,254</b>
Minority Interest						
Net Deferred tax liability/(Asset)	429	433	860	817	817	817
<b>Total Loans</b>	<b>3,027</b>	<b>2,098</b>	<b>2,455</b>	<b>1,451</b>	<b>1,201</b>	<b>951</b>
<b>Capital Employed</b>	<b>9,037</b>	<b>9,524</b>	<b>10,415</b>	<b>10,133</b>	<b>10,923</b>	<b>12,022</b>
<b>Assets</b>						
Gross Block	4,835	5,754	7,143	8,282	9,082	9,682
Less: Depreciation	384	638	916	1,313	1,748	2,212
<b>Net Block</b>	<b>4,450</b>	<b>5,117</b>	<b>6,228</b>	<b>6,969</b>	<b>7,334</b>	<b>7,470</b>
Capital WIP	1,261	1,045	238	173	173	173
<b>Investments</b>	<b>227</b>	<b>305</b>	<b>358</b>	<b>225</b>	<b>215</b>	<b>233</b>
Others - A	302	302	302	381	381	381
<b>Current Assets</b>						
Inventories	1,751	1,927	2,195	2,476	2,884	3,314
Sundry Debtors	1,939	1,640	1,899	2,177	2,536	2,914
Cash and Bank Balance	173	378	470	194	448	1,048
Current Investments	75	75	75	65	65	65
Loans and Advances	371	318	338	385	520	597
Other Current Assets	163	197	175	199	322	370
<b>Total Current Assets</b>	<b>4,472</b>	<b>4,535</b>	<b>5,152</b>	<b>5,496</b>	<b>6,775</b>	<b>8,309</b>
<b>Less: Current Liabilities &amp; Provisions</b>						
Sundry Creditors	1,243	1,223	1,156	1,521	2,101	2,415
Provisions	16	8	23	6	7	9
Other Current Liabilities	418	548	716	1,587	1,849	2,125
<b>Total Current Liabilities &amp; Provisions</b>	<b>1,677</b>	<b>1,779</b>	<b>1,895</b>	<b>3,115</b>	<b>3,958</b>	<b>4,548</b>
<b>Capital Applied</b>	<b>9,037</b>	<b>9,524</b>	<b>10,415</b>	<b>10,133</b>	<b>10,923</b>	<b>12,022</b>

Source: Company, BP Equities Research

## Key Ratios (Consolidated)

YE March (INR. mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Key Operating Ratios</b>						
EBITDA Margin (%)	10%	9%	13%	16%	17%	18%
Tax / PBT (%)	13%	19%	69%	23%	25%	25%
Net Profit Margin (%)	2%	2%	2%	9%	10%	11%
RoE (%)	2%	3%	2%	11%	13%	15%
RoCE (%)	9%	4%	5%	9%	13%	16%
Current Ratio (x)	2.7x	2.5x	2.7x	1.8x	1.7x	1.8x
Dividend Payout (%)	0%	9%	16%	5%	5%	5%
Book Value Per Share (Rs.)	433	542	550	610	690	795

## Financial Leverage Ratios

Debt/ Equity (x)	0.5x	0.3x	0.3x	0.2x	0.1x	0.1x
Interest Coverage (x)	2.7x	3.7x	4.7x	8.2x	12.7x	19.7x

## Growth Indicators %

Growth in Net Block (%)	2%	15%	22%	12%	5%	2%
Sales Growth (%)	(9%)	26%	14%	23%	16%	15%
EBITDA Growth (%)	(53%)	16%	75%	44%	28%	23%
Net Profit Growth (%)	(74%)	36%	(1%)	397%	36%	30%
Diluted EPS Growth (%)	(74%)	36%	(1%)	397%	36%	30%

## Turnover Ratios

Debtors Days	134	90	91	85	85	85
Creditors Days	95	73	64	70	70	70
Inventory Days	121	105	105	96	96	96

Source: Company, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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