

Another disappointing quarter

Neuland lab (NLL) has reported weak operational performance in Q1FY22 with revenue of INR 2,009mn (2.2% YoY decline), which was 20% below our estimate of INR 2,515mn. The revenue was mainly impacted by a 23.2% (YoY) dip in the Speciality API segment due to the inventory destocking at the customer level. CMS business de-grew by 2.2% (YoY) on account of a decline in commercial revenue (-24% YoY). As per our understanding, the company has not made any shipment of its one key product (24% of CMS revenue) in this calendar year. Reported EBITDA margin contracted by 369bps to 12.8% level (vs our estimate of 15.3%) impacted largely due to Increase in raw material prices and upfront costs for certain projects. However, management is confident of improving margin profile from the current level on the back of a strong order book in CMS business, better traction in GDS business, and cost optimization measures. NLL reported a PAT of INR 87mn compared to our estimate of INR 185mn due to weak operational performance.

Change in estimates: We lower our FY22/FY23 EPS estimate by 12%/18% respectively to factor in lower than expected growth in the CMS and Speciality API segments.

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, is expected to drive the next growth phase. Considering the expected strong growth in profitability, healthy balance sheet with improving return ratios, we continue to remain optimistic about the company's long-term growth prospects. However, inflated raw material cost, lower than expected growth in the CMS and Specialty API segment, led us to lower our earnings estimates for FY22/FY23. We downgrade our rating to SELL, with a revised price target of INR 1628 (earlier INR 1975), based on 18x FY23e earnings.

Stock Rating

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

Sector Outlook

Positive

Stock

CMP (INR)	1,771
Target Price (INR)	1,628
BSE code	524558
NSE Symbol	NEULANLAB
Bloomberg	NLL IN
Reuters	NEUL.BO

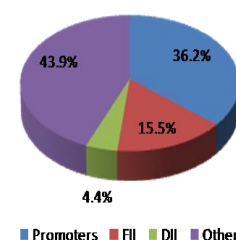
Key Data

Nifty	16,131
52WeekH/L(INR)	2,840 / 770
O/s Shares (Mn)	13
Market Cap (INR bn)	23
Face Value (INR)	10

Average volume

3 months	67,010
6 months	88,620
1 year	1,36,600

Share Holding Pattern (%)



Key Financials (Consolidated)

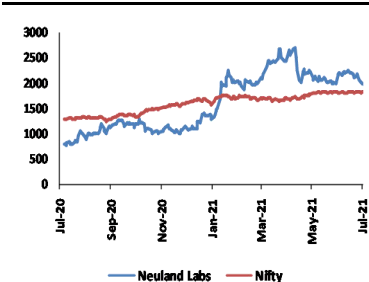
YE March (INR. Mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	6,668	7,627	9,369	10,519	11,695
Growth %	26%	14%	23%	12%	11%
EBIDTA	584	1,019	1,468	1,707	1,980
Growth%	16%	75%	44%	16%	16%
Net Profit	164	162	806	961	1,167
Growth %	36%	-1%	397%	19%	21%
Diluted EPS	13	13	63	74	90.4
Growth %	36%	-1%	397%	19%	21%

Profitability & Valuation

EBIDTA (%)	8.8%	13.4%	15.7%	16.2%	16.9%
NPM (%)	2.5%	2.1%	8.6%	9.1%	10.0%
RoE (%)	2.6%	2.3%	10.8%	11.5%	12.5%
RoCE (%)	3.6%	5.5%	9.3%	12.1%	13.7%
P/E (x)	139.0	140.9	28.3	23.8	19.6
EV/EBITDA (x)	42.1	24.4	16.4	13.8	11.6
P/BV (x)	3.3	3.2	2.9	2.6	2.3

Source: Company, BP Equities Research

Relative Price Chart



Research Analyst

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Variance Analysis of Q1FY22 result

YE March (Inr. mn)	Q1 FY22	Q4 FY21	Q-o-Q change %	Q1 FY21	Y-o-Y change %
Net Sales	2,009	2,447	(17.9%)	2,054	(2.2%)
Other Operating Income	0	0		0	
Total Revenue	2,009	2,447	(17.9%)	2,054	(2.2%)
Less:					
Raw Material Cost	854	1,088	(21.5%)	1,014	(15.8%)
Operating & Manufacturing Expenses	467	670	(30.3%)	355	31.3%
Employee Cost	431	434	(0.7%)	346	24.5%
Total Expenditure	1,752	2,192	(20.1%)	1,716	2.1%
EBIDTA	257	255	0.7%	338	(24.1%)
Less: Depreciation	118	111	6.2%	89	33.5%
EBIT	139	144	(3.6%)	250	(44.5%)
Less: Interest	38.4	45.8	(16.1%)	53.7	(28.4%)
Add: Other income	21	146		7	
Profit before tax	121	244	(50.5%)	203	(40.6%)
Adjusted Profit before Tax	121	244	(50.5%)	203	(40.6%)
Less: Total Tax	33	71	(53.0%)	51	(35.1%)
Profit After Tax	87	173	(49.5%)	152	42.4%
Other comprehensive Income	0	0		0	
Minority Interest	0	0		0	
Adjusted Profit After Tax	87	173	(49.5%)	152	42.4%
Diluted EPS (Rs.)	6.8	13.4	(49.5%)	11.8	42.4%
Adjusted Diluted EPS	6.8	13.4	(49.5%)	11.8	42.4%
Diluted No of Share (mn)	12.9	12.9		12.9	
Margin Analysis %			Change in bps		Change in bps
Gross Margin %	57.5%	55.5%	194	50.6%	685
EBIDTA Margin %	12.8%	10.4%	236	16.5%	-369
EBIT Margin %	6.9%	5.9%	103	12.2%	-526
NPM %	4.3%	7.1%	-272	7.4%	-303
Effective Tax Rate %	27.7%	29.1%	-145	25.3%	231

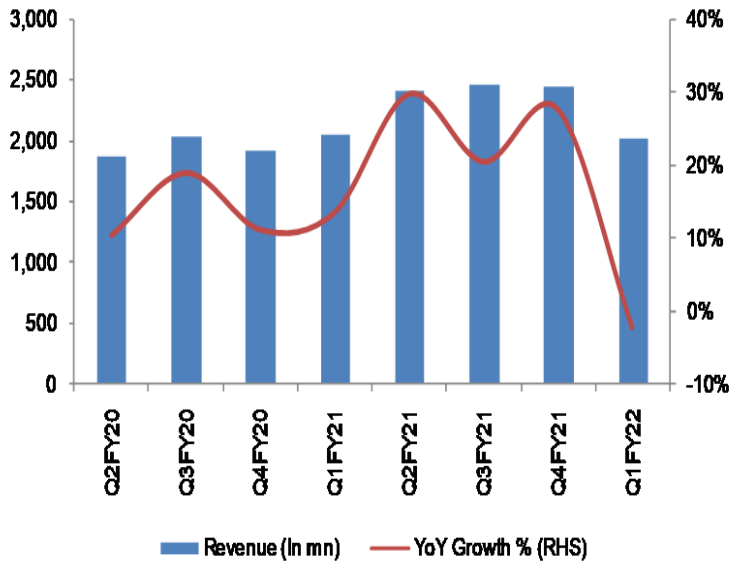
Source: Company, BP Equities Research

Revenue decline was mainly due to de-growth in the CMS (2.2% YoY) and Speciality API segment (23.2% YoY)

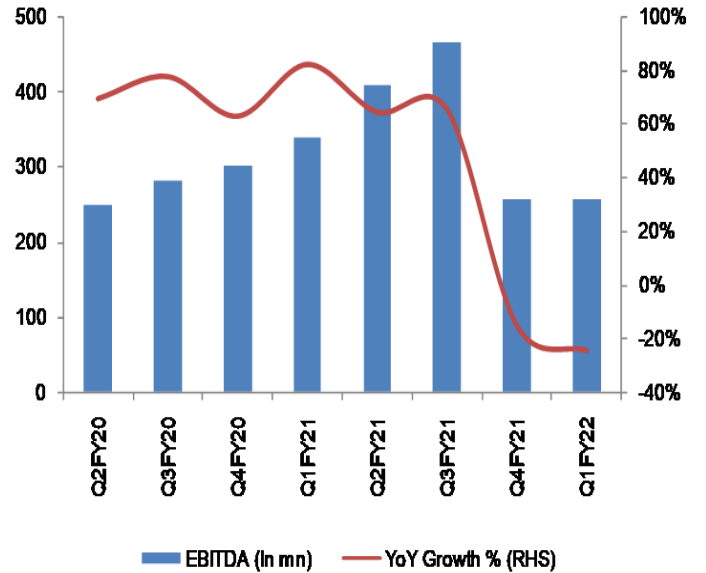
Adj. PAT came 53% below our estimate of INR 185mn due to weak operational performance

Margin decline was impacted largely due to impacted largely due to increase in raw material prices and upfront costs for certain projects .

Revenue growth trend

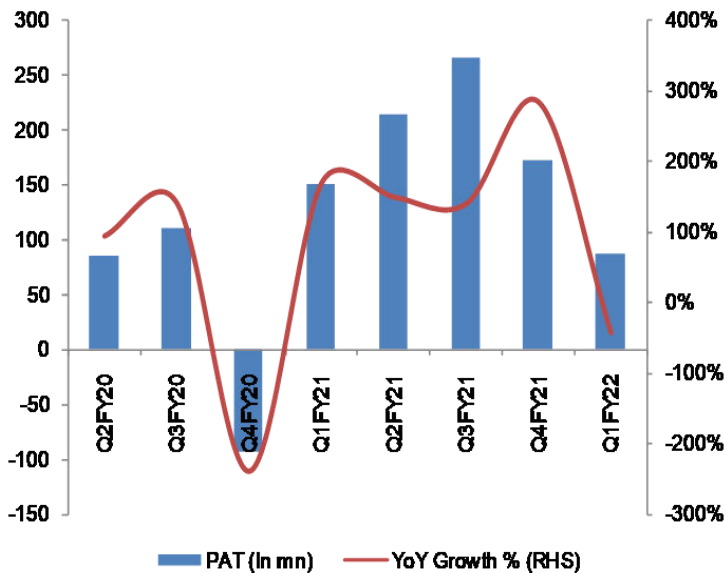


EBITDA declined by 24.1%(YoY)

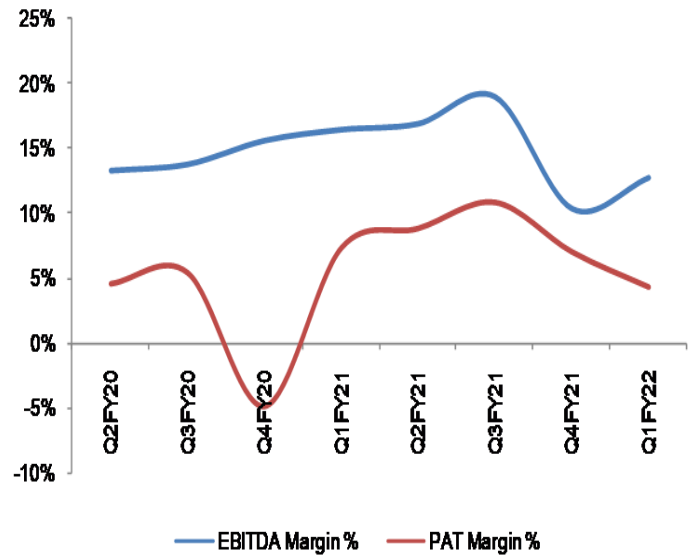


Source: Company, BP Equities Research

PAT growth trend



EBITDA and PAT margin trend



Source: Company, BP Equities Research

**Segment Wise Revenue Break-Up**

INR in mn	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY %	QoQ %
GDS (Prime API + Speciality API)	1,266	1,407	1,280	1,561	1,617	1,497	1,713	1,507	-3.5%	-12%
% of Sales	68%	69%	67%	76%	67%	61%	70%	75%		
Prime API	782	1,040	808	986	1,135	1,055	1,199	1,065	8.0%	-11%
% of Sales	42%	51%	42%	48%	47%	43%	49%	53%		
Speciality API	484	367	472	575	483	442	514	442	-23.2%	-14%
% of Sales	26%	18%	24.6%	28%	20%	18%	21%	22%		
CMS (Com+ Dev)	484	510	531	452	748	908	551	442	-2.2%	-20%
% of Sales	26%	25%	28%	22%	31%	37%	23%	22%		
Commercial (% of CMS sales)	82%	58%	51%	47%	66%	50%	37%	52%		
Development (% of CMS sales)	18%	42%	49%	53%	34%	50%	63%	48%		
Others	112	122	107	41	48	49	184	60	47%	-67%
% of Sales	6%	6%	6%	2%	2%	2%	8%	3%		

Source: Company, BP Equities Research



Profit & Loss A/c (Consolidated)

YE March (INR. mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Revenue	5,274	6,668	7,627	9,369	10,519	11,695
Growth %	-8.9%	26.4%	14.4%	22.8%	12.3%	11.2%
Total Revenue	5,274	6,668	7,627	9,369	10,519	11,695
Less:						
Raw Material Consumed	2,384	3,662	3,802	4,384	4,898	5,366
Employee Cost	1,030	1,105	1,236	1,497	1,647	1,828
Other Expenses	1,356	1,318	1,571	2,019	2,267	2,521
Total Operating Expenditure	4,770	6,085	6,608	7,901	8,812	9,715
EBITDA	504	584	1,019	1,468	1,707	1,980
Growth %	-52.6%	15.7%	74.6%	44.1%	16.3%	16.0%
Less: Depreciation	221	259	313	397	435	464
EBIT	283	325	706	1,071	1,272	1,516
Growth %	-67.5%	14.8%	117.2%	51.7%	18.7%	19.2%
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
Profit Before tax	139	203	529	1,053	1,285	1,560
Tax	19	39	367	247	324	393
Net Profit	121	164	162	806	961	1,167
Adjusted Profit	121	164	162	806	961	1,167
Reported Diluted EPS Rs	9.4	12.7	12.6	62.5	74.5	90.4
Growth %	-74.3%	36.3%	-1.4%	397.4%	19.2%	21.4%
Adjusted Diluted EPS Rs	9.4	12.7	12.6	62.5	74.5	90.4
Growth %	-74.3%	36.3%	-1.4%	397.4%	19.2%	21.4%

Source: Company, BP Equities Research

Cash Flows (Consolidated)

YE March (INR. Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
PAT	120.6	164.4	162.1	806.3	961.0	1,166.6
(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
Operating Profit before Working Capital Changes	485.6	544.8	651.8	1,221.2	1,383.3	1,586.8
(Inc)/Dec in Current Assets	(274.1)	318.7	(256.8)	(339.2)	(495.1)	(364.0)
Inc/(Dec) in Current Liabilities	332.1	102.0	115.4	1,220.7	699.8	426.5
Changes in Inventory	(399.8)	(175.7)	(268.9)	(280.6)	(303.9)	(310.8)
Net Cash Generated From Operations	143.8	789.8	241.4	1,822.0	1,284.1	1,338.5
Cash Flow from Investing Activities						
(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
Net Cash Flow from/(used in) Investing Activities	(1,285.6)	(745.0)	(628.5)	(830.0)	(628.7)	(457.7)
Cash Flow from Financing Activities						
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)	(45.9)	(55.7)
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
Net Cash Flow from Financing Activities	1,189.5	161.0	478.4	(1,267.9)	(444.0)	(423.0)
Net Inc/Dec in cash equivalents	47.6	205.9	91.4	(275.8)	211.4	457.8
Opening Balance	124.9	172.6	378.4	469.8	194.0	405.4
Closing Balance Cash and Cash Equivalents	172.6	378.4	469.8	194.0	405.4	863.2

Source: Company, BP Equities Research



Balance Sheet (Consolidated)

YE March(Rs. mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Liabilities						
Equity Capital	90	129	129	129	129	129
Reserves & Surplus	2,382	6,864	6,971	7,736	8,651	9,762
Equity	5,580	6,993	7,100	7,865	8,780	9,891
Net Worth	5,580	6,993	7,100	7,865	8,780	9,891
Minority Interest						
Net Deferred tax liability/(Asset)	429	433	860	817	817	817
Total Loans	3,027	2,098	2,455	1,451	1,201	951
Capital Employed	9,037	9,524	10,415	10,133	10,798	11,659
Assets						
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
Net Block	4,450	5,117	6,228	6,969	7,334	7,470
Capital WIP	1,261	1,045	238	173	173	173
Investments	227	305	358	225	215	233
Others - A	302	302	302	381	381	381
Current Assets						
Inventories	1,751	1,927	2,195	2,476	2,780	3,091
Sundry Debtors	1,939	1,640	1,899	2,177	2,445	2,718
Cash and Bank Balance	173	378	470	194	405	863
Current Investments	75	75	75	65	65	65
Loans and Advances	371	318	338	385	501	557
Other Current Assets	163	197	175	199	311	345
Total Current Assets	4,472	4,535	5,152	5,496	6,506	7,639
Less: Current Liabilities & Provisions						
Sundry Creditors	1,243	1,223	1,156	1,521	2,025	2,252
Provisions	16	8	23	6	7	8
Other Current Liabilities	418	548	716	1,587	1,782	1,982
Total Current Liabilities & Provisions	1,677	1,779	1,895	3,115	3,815	4,242
Capital Applied	9,037	9,524	10,415	10,133	10,798	11,659

Source: Company, BP Equities Research

Key Ratios (Consolidated)

YE March (INR. mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Key Operating Ratios						
EBITDA Margin (%)	10%	9%	13%	16%	16%	17%
Tax / PBT (%)	13%	19%	69%	23%	25%	25%
Net Profit Margin (%)	2%	2%	2%	9%	9%	10%
RoE (%)	2%	3%	2%	11%	12%	12%
RoCE (%)	9%	4%	5%	9%	12%	14%
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	681	767

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	11.5x	16.9x

Growth Indicators %

Growth in Net Block (%)	2%	15%	22%	12%	5%	2%
Sales Growth (%)	(9%)	26%	14%	23%	12%	11%
EBITDA Growth (%)	(53%)	16%	75%	44%	16%	16%
Net Profit Growth (%)	(74%)	36%	(1%)	397%	19%	21%
Diluted EPS Growth (%)	(74%)	36%	(1%)	397%	19%	21%

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

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