

Good recovery in Q2; margin surprise lead to the rating upgrade

After delivering a weak numbers in Q1FY22, Neuland lab (NLL) has witnessed a recovery in operational performance during Q2FY22 with revenue of INR 2,578mn (+6.8% YoY, +28.4% QoQ), which was 25% above our estimate of INR 2065mn. The revenue was mainly driven by strong growth in the Speciality API segment (+23% YoY, +34% QoQ) due to development revenues for Paliperidone Palmitate apart from higher contribution from Dorzolamide & Donepezil. CMS business de-grew by 7% (YoY), however on a sequential basis, revenue improved by 58%, on account of +110% YoY and +163% QoQ growth in-development products, which are close to commercialization over the next few quarters. Reported EBITDA margin declined by 31bps to 16.6% level (vs our estimate of 13.3%), though improved by 383bps on a sequential basis supported by better product mix. Moreover, management remained confident of improving the overall 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 204mn compared to our estimate of INR 104mn due to better operational performance.

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 abundant product opportunities, is expected to drive the next growth phase. We believe the company to benefit from the vertical integration of API & intermediates at Unit 3 and the increasing product pipeline in the CMS business. Considering the expected better earnings growth, healthy balance sheet with improving return ratios, we continue to remain optimistic about the company's long-term growth prospects. However, consistent performance in the CMS business still needs to be monitored. We roll forward our target price to FY24e EPS of INR 107 to arrive at a revised target price of INR 1,720 (earlier INR 1,628), valuing the stock at 16x P/E and revising our rating to Hold (earlier Sell).

Stock Rating

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

Sector Outlook

Positive

Stock

CMP (INR)	1,670
Target Price (INR)	1,720
BSE code	524558
NSE Symbol	NEULANLAB
Bloomberg	NLL IN
Reuters	NEUL.BO

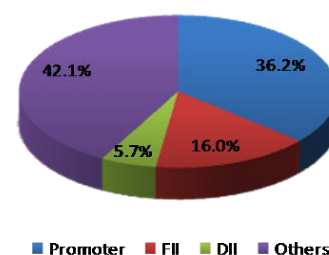
Key Data

Nifty	17,672
52WeekH/L(INR)	2,844 / 977
O/s Shares (Mn)	13
Market Cap (INR bn)	21.5
Face Value (INR)	10

Average volume

3 months	39,004
6 months	55,142
1 year	90,124

Share Holding Pattern (%)



Key Financials (Consolidated)

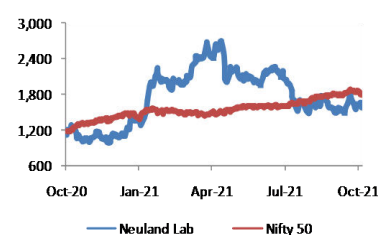
YE March (INR. Mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	7,627	9,369	10,519	11,695	13,046
Growth %	14%	23%	12%	11%	12%
EBIDTA	1,019	1,468	1,687	1,958	2,282
Growth%	75%	44%	15%	16%	17%
Net Profit	162	806	939	1,143	1,387
Growth %	-1%	397%	16%	22%	21%
Diluted EPS	13	63	73	89	107
Growth %	-1%	397%	16%	22%	21%

Profitability & Valuation

EBIDTA (%)	13.4%	15.7%	16.0%	16.7%	17.5%
NPM (%)	2.1%	8.6%	8.9%	9.8%	10.6%
RoE (%)	2.3%	10.8%	11.3%	12.3%	13.2%
RoCE (%)	5.5%	9.3%	11.9%	13.4%	14.8%
P/E (x)	132.9	26.7	22.9	18.8	15.5
EV/EBITDA (x)	23.1	15.5	13.4	11.2	9.2
P/BV (x)	3.0	2.7	2.5	2.2	1.9

Source: Company, BP Equities Research

Relative Price Chart



Research Analyst

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Variance Analysis of Q2FY22 result

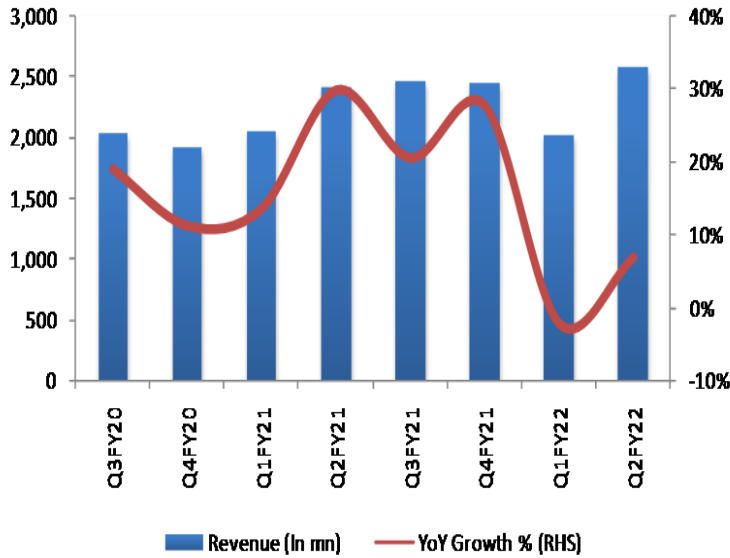
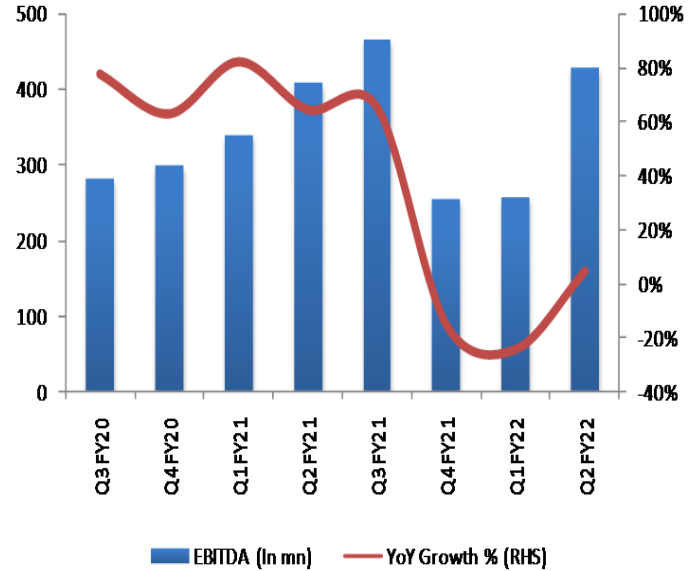
YE March (Inr. mn)	Q2 FY22	Q1 FY22	Q-o-Q change %	Q2 FY21	Y-o-Y change %
Net Sales	2,578	2,009	28.4%	2,414	6.8%
Other Operating Income	0	0		0	
Total Revenue	2,578	2,009	28.4%	2,414	6.8%
Less:					
Raw Material Cost	1,130	854	32.3%	1,160	(2.6%)
Operating & Manufacturing Expenses	547	467	17.2%	508	7.7%
Employee Cost	473	431	9.8%	338	40.1%
Total Expenditure	2,150	1,752	22.7%	2,005	7.2%
EBIDTA	428	257	66.8%	409	4.8%
Less: Depreciation	120	118	1.3%	93	29.3%
EBIT	309	139	122.6%	316	(2.3%)
Less: Interest	35.6	38.4	(7.4%)	35.1	1.4%
Add: Other income	3	21		6	
Profit before tax	276	121	128.4%	287	(3.9%)
Adjusted Profit before Tax	276	121	128.4%	287	(3.9%)
Less: Total Tax	72	33	115.9%	72	(0.5%)
Profit After Tax	204	87	133.3%	214	5.0%
Other comprehensive Income	0	0		0	
Minority Interest	0	0		0	
Adjusted Profit After Tax	204	87	133.3%	214	5.0%
Diluted EPS (Rs.)	15.8	6.8	133.3%	16.6	5.0%
Adjusted Diluted EPS	15.8	6.8	133.3%	16.6	5.0%
Diluted No of Share (mn)	12.9	12.9		12.9	
Margin Analysis %			Change in bps		Change in bps
Gross Margin %	56.2%	57.5%	-131	51.9%	423
EBIDTA Margin %	16.6%	12.8%	383	16.9%	-31
EBIT Margin %	12.0%	6.9%	507	13.1%	-112
NPM %	7.9%	4.3%	355	8.9%	-98
Effective Tax Rate %	26.1%	27.7%	-152	25.3%	87

Revenue growth was mainly supported by 22.8% growth in Speciality API segment

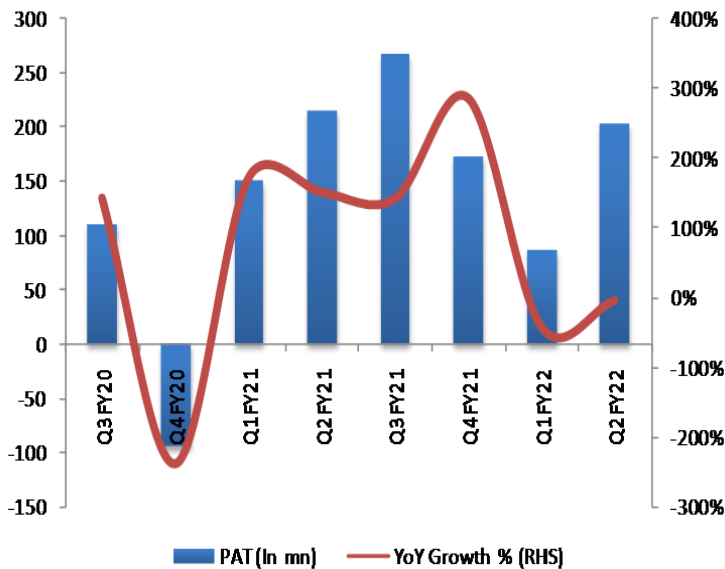
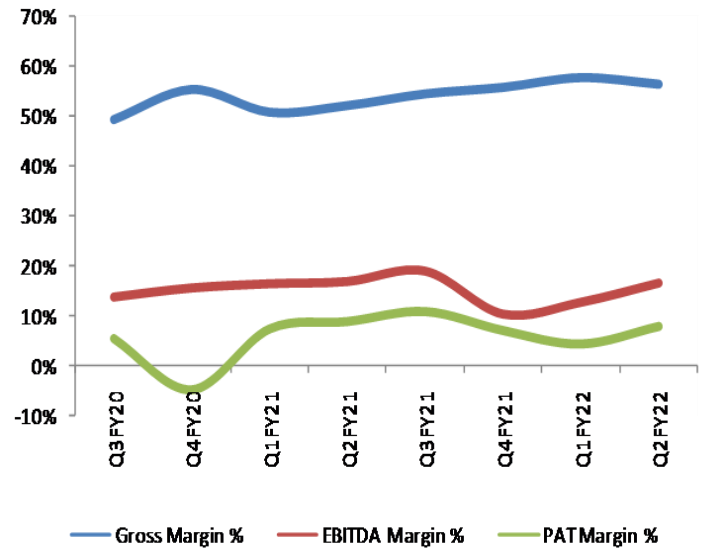
Adj. PAT came above our estimate of INR 104mn due to better operational performance

Margin beat was mainly driven by better product mix

Source: Company, BP Equities Research

Revenue grew by 6.8% (YoY)

EBITDA improved by 4.8%(YoY)


Source: Company, BP Equities Research

PAT growth trend

Gross/EBITDA /PAT margin trend


Source: Company, BP Equities Research

**Segment Wise Revenue Break-Up**

INR in mn	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY %	QoQ %
GDS (Prime API + Speciality API)	1,407	1,280	1,561	1,617	1,497	1,713	1,507	1,753	8%	16%
% of Sales	69%	67%	76%	67%	61%	70%	75%	68%		
Prime API	1,040	808	986	1,135	1,055	1,199	1,065	1,160	2%	9%
% of Sales	51%	42%	48%	47%	43%	49%	53%	45%		
Speciality API	367	472	575	483	442	514	442	593	23%	34%
% of Sales	18%	24.6%	28%	20%	18%	21%	22%	23%		
CMS (Com+ Dev)	510	531	452	748	908	551	442	696	-7%	58%
% of Sales	26%	25%	28%	22%	31%	37%	23%	22%		
Commercial (% of CMS sales)	58%	51%	47%	66%	50%	37%	52%	20%		
Development (% of CMS sales)	42%	49%	53%	34%	50%	63%	48%	80%		
Others	122	107	41	48	49	184	60	129	167%	114%
% of Sales	6%	6%	2%	2%	2%	8%	3%	5%		

Source: Company, BP Equities Research



Profit & Loss A/c (Consolidated)

YE March (INR. mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue	6,668	7,627	9,369	10,519	11,695	13,046
Growth %	26.4%	14.4%	22.8%	12.3%	11.2%	11.6%
Total Revenue	6,668	7,627	9,369	10,519	11,695	13,046
Less:						
Raw Material Consumed	3,662	3,802	4,384	4,917	5,388	5,923
Employee Cost	1,105	1,236	1,497	1,647	1,828	2,029
Other Expenses	1,318	1,571	2,019	2,267	2,521	2,812
Total Operating Expenditure	6,085	6,608	7,901	8,832	9,737	10,764
EBITDA	584	1,019	1,468	1,687	1,958	2,282
Growth %	15.7%	74.6%	44.1%	14.9%	16.1%	16.5%
Less: Depreciation	259	313	397	445	473	502
EBIT	325	706	1,071	1,243	1,485	1,779
Growth %	14.8%	117.2%	51.7%	16.0%	19.5%	19.8%
Interest Paid	157	216	179	148	117	86
Non-operating Income	35	39	161	161	161	161
Extraordinary Income	0	0	0	0	0	0
Profit Before tax	203	529	1,053	1,255	1,528	1,854
Tax	39	367	247	316	385	467
Net Profit	164	162	806	939	1,143	1,387
Adjusted Profit	164	162	806	939	1,143	1,387
Reported Diluted EPS Rs	12.7	12.6	62.5	72.8	88.6	107.5
Growth %	36.3%	-1.4%	397.4%	16.5%	21.7%	21.3%
Adjusted Diluted EPS Rs	12.7	12.6	62.5	72.8	88.6	107.5
Growth %	36.3%	-1.4%	397.4%	16.5%	21.7%	21.3%

Source: Company, BP Equities Research

Cash Flows (Consolidated)

YE March (INR. Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
PAT	164.4	162.1	806.3	939.1	1,143.3	1,386.8
(Less)/Add: Extraordinary Income/Expense	0.0	0.0	0.0	0.0	0.0	0.0
Less: Non Operating Income	(34.9)	(38.9)	(161.0)	(161.0)	(161.0)	(161.0)
Add: Depreciation	258.6	312.8	396.8	444.7	473.5	502.2
Add: Interest Paid	156.6	215.7	179.0	148.1	117.3	86.5
Tax Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	544.8	651.8	1,221.2	1,371.0	1,573.1	1,814.5
(Inc)/Dec in Current Assets	318.7	(256.8)	(339.2)	(495.1)	(364.0)	(418.2)
Inc/(Dec) in Current Liabilities	102.0	115.4	1,220.7	699.8	426.5	490.0
Changes in Inventory	(175.7)	(268.9)	(280.6)	(303.9)	(310.8)	(357.0)
Net Cash Generated From Operations	789.8	241.4	1,822.0	1,271.8	1,324.8	1,529.2
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	(919.9)	(1,388.9)	(1,138.6)	(1,000.0)	(600.0)	(600.0)
(Inc)/Dec in Capital Work In Progress	216.2	807.2	65.0	0.0	0.0	0.0
(Inc)/Dec in Investment (Strategic)	(78.4)	(53.1)	133.1	10.4	(18.7)	(31.5)
(Inc)/Dec in Investment (Others)	0.0	0.4	(79.0)	0.0	0.0	0.0
Add: Non Operating Income	34.9	38.9	161.0	161.0	161.0	161.0
(Inc)/Dec in Intangible Assets	2.2	(33.0)	28.6	0.0	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	(745.0)	(628.5)	(830.0)	(828.7)	(457.7)	(470.6)
Cash Flow from Financing Activities						
Inc/(Dec) in Total Loans	(925.1)	784.4	(1,047.6)	(250.0)	(250.0)	(250.0)
Inc/(Dec) in Reserves & Surplus	4,332.7	(29.9)	(2.8)	0.0	0.0	0.0
Inc/(Dec) in Equity	(3,069.0)	0.0	0.0	0.0	0.0	0.0
Dividend Paid	(15.4)	(25.7)	(38.5)	(44.8)	(54.6)	(66.2)
Less: Interest Paid	(156.6)	(215.7)	(179.0)	(148.1)	(117.3)	(86.5)
Adjustments	(5.5)	(34.6)	(0.0)	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	161.0	478.4	(1,267.9)	(443.0)	(421.9)	(402.7)
Net Inc/Dec in cash equivalents	205.9	91.4	(275.8)	0.2	445.2	656.0
Opening Balance	172.6	378.4	469.8	194.0	194.2	639.3
Closing Balance Cash and Cash Equivalents	378.4	469.8	194.0	194.2	639.3	1,295.3

Source: Company, BP Equities Research



Balance Sheet (Consolidated)

YE March(Rs. mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Liabilities						
Equity Capital	129	129	129	129	129	129
Reserves & Surplus	6,864	6,971	7,736	8,630	9,719	11,039
Equity	6,993	7,100	7,865	8,759	9,848	11,168
Net Worth	6,993	7,100	7,865	8,759	9,848	11,168
Minority Interest						
Net Deferred tax liability/(Asset)	433	860	817	817	817	817
Total Loans	2,098	2,455	1,451	1,201	951	701
Capital Employed	9,524	10,415	10,133	10,777	11,616	12,686
Assets						
Gross Block	5,754	7,143	8,282	9,282	9,882	10,482
Less: Depreciation	638	916	1,313	1,757	2,231	2,733
Net Block	5,117	6,228	6,969	7,525	7,651	7,749
Capital WIP	1,045	238	173	173	173	173
Investments	305	358	225	215	233	265
Others - A	302	302	381	381	381	381
Current Assets						
Inventories	1,927	2,195	2,476	2,780	3,091	3,448
Sundry Debtors	1,640	1,899	2,177	2,445	2,718	3,032
Cash and Bank Balance	378	470	194	194	639	1,295
Current Investments	75	75	65	65	65	65
Loans and Advances	318	338	385	501	557	621
Other Current Assets	197	175	199	311	345	385
Total Current Assets	4,535	5,152	5,496	6,295	7,415	8,846
Less: Current Liabilities & Provisions						
Sundry Creditors	1,223	1,156	1,521	2,025	2,252	2,512
Provisions	8	23	6	7	8	9
Other Current Liabilities	548	716	1,587	1,782	1,982	2,211
Total Current Liabilities & Provisions	1,779	1,895	3,115	3,815	4,242	4,732
Capital Applied	9,524	10,415	10,133	10,777	11,616	12,686

Source: Company, BP Equities Research

Key Ratios (Consolidated)

YE March (INR. mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Key Operating Ratios						
EBITDA Margin (%)	9%	13%	16%	16%	17%	17%
Tax / PBT (%)	19%	69%	23%	25%	25%	25%
Net Profit Margin (%)	2%	2%	9%	9%	10%	11%
RoE (%)	3%	2%	11%	11%	12%	13%
RoCE (%)	4%	5%	9%	12%	13%	15%
Current Ratio (x)	2.5x	2.7x	1.8x	1.7x	1.7x	1.9x
Dividend Payout (%)	9%	16%	5%	5%	5%	5%
Book Value Per Share (Rs.)	542	550	610	679	763	866

Financial Leverage Ratios

Debt/ Equity (x)	0.3x	0.3x	0.2x	0.1x	0.1x	0.1x
Interest Coverage (x)	3.7x	4.7x	8.2x	11.4x	16.7x	26.4x

Growth Indicators %

Growth in Net Block (%)	15%	22%	12%	8%	2%	1%
Sales Growth (%)	26%	14%	23%	12%	11%	12%
EBITDA Growth (%)	16%	75%	44%	15%	16%	17%
Net Profit Growth (%)	36%	(1%)	397%	16%	22%	21%
Diluted EPS Growth (%)	36%	(1%)	397%	16%	22%	21%

Turnover Ratios

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

Source: Company, BP Equities Research

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