INVasset Knowledge Bank

neuland

19th September, 2024

INVASSET

India's Best Performing and Most Customer Centric PMS

Neuland Labs Ltd

Neuland Laboratories Limited is a leading Indian pharmaceutical company specializing in the development, manufacture, and sale of Active Pharmaceutical Ingredients (APIs).

Established in 1984 by Dr. D. R. Rao and headquartered in Hyderabad, India, Neuland Labs has built a strong reputation for its expertise in complex chemistry and niche therapeutic segments, including cardiovascular, central nervous system (CNS), respiratory, antidiabetic, and anti-infective drugs.

The company is known for its focus on high-quality production standards, rigorous regulatory compliance, and innovative research and development. Neuland Labs operates two state-of-the-art, US FDA-approved manufacturing facilities in Hyderabad, which are equipped to handle a wide range of complex chemical processes, including high-potency and cytotoxic substances.

These facilities comply with stringent global standards and have been inspected and approved by multiple regulatory bodies, ensuring the highest levels of quality and consistency in their products.

Investment Rationale

- **Strategic Shift to Higher-Margin Businesses:** Neuland Labs has effectively transitioned from low-margin products to a balanced portfolio that includes high-margin Specialty APIs and Custom Manufacturing Solutions (CMS). This strategic focus on complex specialty APIs and niche opportunities in regulated markets positions the company for sustainable, long-term growth and improved profitability.

- **Strong Financial Performance and Cash Flow Generation:** The company's robust financial performance, with a 30.8% increase in total income and significant improvement in EBITDA margins, demonstrates effective cost management and operational efficiency. The generation of substantial free cash flow and reduction in debt levels further highlights Neuland's financial resilience and prudent capital management.

- **Robust R&D and Innovation Focus:** Neuland Labs' commitment to research and development, particularly in niche and complex chemistries, enhances its ability to develop differentiated products. The focus on non-infringing processes and innovative API development, supported by a robust pipeline of intellectual property filings, strengthens its competitive positioning in a rapidly evolving pharmaceutical landscape.

- **Commitment to ESG and Sustainable Growth:** The company's dedication to integrating ESG principles into its core strategy, including initiatives to achieve net-zero emissions and align with international sustainability standards, significantly enhances its appeal to socially responsible investors. The notable improvement in its ESG scores further underscores its commitment to sustainable and ethical growth.

Stock Data	
CMP	Rs 12,564
52 Week High/Low	Rs 13,248 / 3,424
Face Value	Rs 10
Market Cap (In Crs)	16,401 Cr
NSE	NEULANDLAB
BSE	524558
Bloomberg	NLL
Sector	Pharmaceuticals

Shareholding Pattern (in %)		
Metrics	**Mar 2023**	**Mar 2024**
Promoter	36.14%	32.74%
FII	18.14%	24.43%
DII	7.10%	6.54%
Public	38.22%	35.88%
Government	0.40%	0.40%

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	3.43%	16.49%	27.71%
Neuland Labs	9.63%	106.85%	244.89%

Key Ratios	
P/E	51.2
P/B	12.1
Debt To Equity	-0.03
ROE	23.47
ROCE	32.78
Dividend Yield	0.11%

Company Background

Founded in 1984 and headquartered in Hyderabad, India, **Neuland Laboratories Limited** is a leading publicly traded company specializing in the Active Pharmaceutical Ingredients (APIs) sector.

With a strong focus on innovation, quality, and regulatory compliance, Neuland has established a robust market presence by providing comprehensive chemistry solutions tailored to the pharmaceutical industry's evolving needs.

The company offers a wide range of services, including custom synthesis, supply of advanced intermediates and APIs throughout various stages of clinical development, and Chemistry, Manufacturing, and Controls (CMC) support for New Drug Application (NDA) filings.

Neuland also provides full-scale manufacturing support throughout the commercial product lifecycle, from product launch to genericization.

With over three decades of experience, Neuland has become a pioneer in current Good Manufacturing Practice (cGMP) API manufacturing, accelerating drug development timelines through its expertise and commitment to quality.

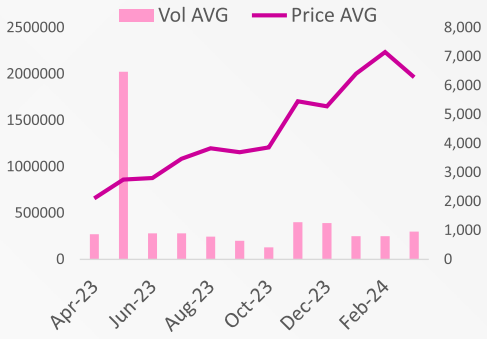
The company's technical and scientific teams, comprising over 1,600 professionals, deliver comprehensive services and solutions that cater to the diverse needs of the global pharmaceutical industry.

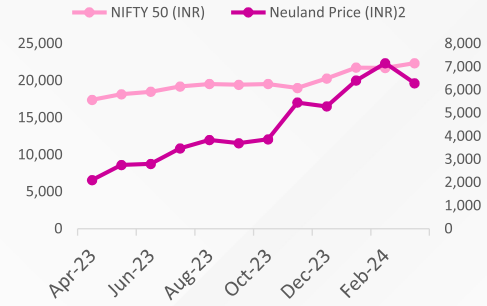
Neuland's state-of-the-art manufacturing facilities are approved by the US Food and Drug Administration (FDA) and other international regulatory bodies, ensuring the highest standards of quality and compliance.

Neuland's strategic focus lies in its ability to produce high-quality APIs, leveraging robust process chemistry within a stringent regulatory framework. This focus has allowed the company to emerge as a global player, exporting its products to more than 80 countries.

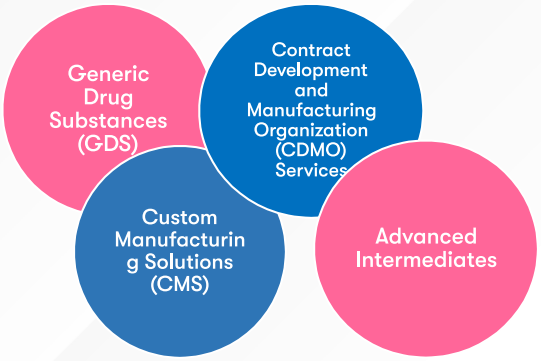
The US and Europe are the largest markets for Neuland, accounting for over 79% of its total exports. The company's strong regulatory compliance is demonstrated by its extensive portfolio of Drug Master Files (DMFs), with over 499 DMFs filed with European regulatory authorities, 67 DMFs with the US FDA, and several others with health regulatory bodies in Canada, Japan, Korea, and Australia.

Neuland Laboratories Limited stands out as a well-positioned player in the global pharmaceutical landscape, combining a diverse product portfolio, robust regulatory compliance, innovation, operational excellence, and a commitment to sustainability. Its strategic focus on high-margin businesses, global expansion, and shareholder value creation makes it an attractive investment opportunity in the growing API and custom manufacturing sectors.

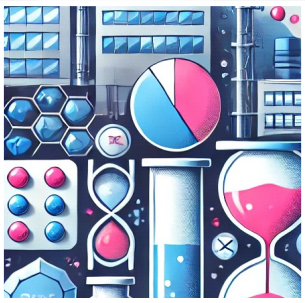




Neuland Labs's Business Verticals



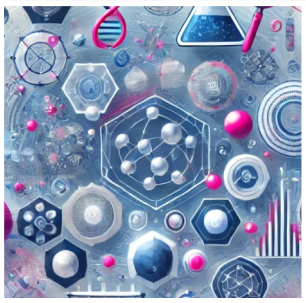
Business Verticals



Generic Drug Substances (GDS)



Custom Manufacturing Solutions (CMS)



CDMO Services



Advanced Intermediate

Generic Drug Substances (GDS): This vertical is the core of Neuland's business, focusing on the development and manufacturing of Active Pharmaceutical Ingredients (APIs). Within this vertical, there are two primary categories:

- **Prime APIs:** These are mature, large-volume APIs that serve established markets. Neuland Labs produces a robust portfolio of Prime APIs in its state-of-the-art facilities, which comply with US FDA and EU GMP standards. The company's focus in this area is on continuous process optimization, stringent quality control measures, and consistent supply of high-quality APIs.
- **Specialty APIs:** These APIs are more complex and involve lower volumes but are designed for niche therapeutic areas where there is less competition. Neuland leverages its expertise in complex chemistries, such as chiral chemistry, and innovative manufacturing processes to develop specialty APIs that are often protected by intellectual property. The company focuses on expanding its business in high-compliance markets, developing unique formulations, and leveraging its core competencies to cater to specialized pharmaceutical needs.

Custom Manufacturing Solutions (CMS)

Neuland Labs' Custom Manufacturing Solutions (CMS) vertical offers a comprehensive suite of services that includes the development and production of APIs for New Chemical Entities (NCEs) and advanced intermediates from the pre-IND (Investigational New Drug) stage through to commercialization. The CMS vertical focuses on:

- **Quality-by-Design (QbD) Labs:** Investment in QbD labs ensures that all APIs are developed with high quality and compliance.
- **Process Engineering:** Enhancing cost efficiencies through optimized and scalable processes.
- **Lifecycle Management:** Providing complete lifecycle management for commercial products, from early-phase development to full-scale commercial manufacturing.
- **Global Reach:** Serving as a full Chemistry, Manufacturing, and Controls (CMC) partner for global pharmaceutical companies, with a focus on regulated markets such as the US, Europe, and Japan.

Contract Development and Manufacturing Organization (CDMO) Services:
Under the CDMO vertical, Neuland Labs provides end-to-end support for pharmaceutical companies, from the development of new molecules to full-scale commercial production. This includes:

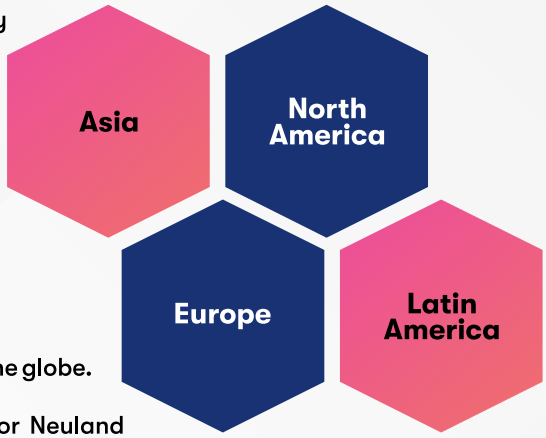
- **Custom Synthesis:** Tailored synthesis of complex molecules, leveraging Neuland's extensive expertise in chemistry.
- Development and Scale-Up: Supporting clients in scaling up from small quantities required for clinical trials to full-scale production.
- **Regulatory Support:** Assisting with CMC (Chemistry, Manufacturing, and Controls) documentation required for regulatory filings.

Advanced Intermediate: Neuland also focuses on the supply of advanced intermediates that are used in the synthesis of APIs. These intermediates are critical in the development of complex molecules and support various stages of the pharmaceutical development pipeline. The company ensures high quality and regulatory compliance for these intermediates to meet the needs of its global clientele.

Geographical Presence

Neuland Labs has a strong geographical presence with its primary operations based in India, where it focuses on manufacturing Active Pharmaceutical Ingredients (APIs) and Custom Manufacturing Solutions (CMS) for global markets.

The company's headquarters is located in Hyderabad, which is also home to its main manufacturing units. Neuland Labs operates three manufacturing facilities (Unit I, II, and III) in and around Hyderabad.



Operational Locations

Neuland Labs serves a diverse range of pharmaceutical companies across the globe.

- **North America:** The United States and Canada are critical markets for Neuland Labs, given their large pharmaceutical industries. The company supplies a variety of generic APIs to these markets, catering to both generic drug manufacturers and innovators.

Neuland's facilities in Hyderabad are regularly inspected by the US FDA, ensuring its products meet the stringent quality standards required in the US. The company's success in North America is also attributed to its strong client relationships and its ability to provide custom solutions that align with client specifications.

- **Europe:** Europe represents another significant market for Neuland Labs, particularly in countries like Germany, the UK, France, and Spain. The company's compliance with European regulatory standards (such as the European Medicines Agency - EMA) allows it to provide APIs and intermediates to pharmaceutical companies operating within the region.The company's emphasis on high-quality manufacturing processes and consistent delivery timelines has helped it establish a strong foothold in this competitive market.

- **Asia:** Apart from its operations in India, Neuland Labs has extended its reach to other Asian markets, including Japan, South Korea, and China. The company's focus in these markets is on both generics and custom manufacturing. In Japan, a market known for its stringent regulatory requirements, Neuland's APIs are widely accepted, owing to the company's adherence to Japanese PMDA standards. South Korea is another market where Neuland's APIs are gaining traction, particularly in therapeutic segments like cardiovascular and anti-infectives.

- **Latin America and Other Markets:** Neuland Labs has established a presence in several emerging markets, including Latin America (Brazil, Mexico, and Argentina). These markets are characterized by growing pharmaceutical demand, and Neuland's strategic entry into these regions allows it to tap into a new customer base.

Key Highlights

- Global Reach Across Key Markets
- Strategic Focus on Regulated Markets
- Expansion into Emerging Markets
- Manufacturing and Research Facilities in India

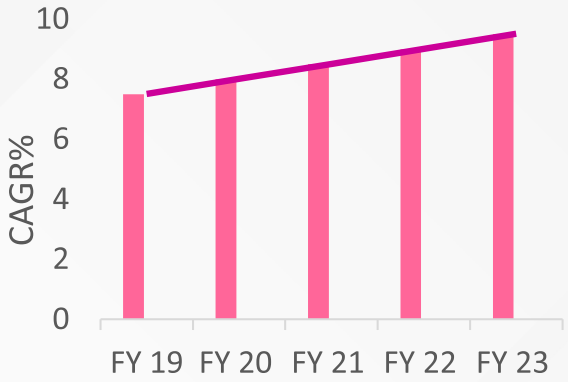
Neuland Labs ensures compliance with various international regulatory bodies, which is critical for its global operations:

- **US FDA:** Regular inspections and approvals from the US FDA allow Neuland to supply APIs to the lucrative US market.
- **European Medicines Agency (EMA):** Compliance with EMA regulations helps Neuland in exporting to European countries.
- **Pharmaceuticals and Medical Devices Agency (PMDA) of Japan:** This compliance allows the company to serve the highly regulated Japanese market.
- **Other Global Standards:** Neuland also complies with WHO-GMP, EDQM, TGA (Australia), and several other regulatory standards to maintain its global market presence.

Industry Analysis

Pharmaceutical Industry: India's pharmaceutical industry is a powerhouse in the global market, ranking third in terms of volume and 14th by value. The industry's market size was valued at approximately USD 50 billion in FY23 and is projected to reach USD 65 billion by FY24, driven by robust domestic demand and strong export growth. India is often referred to as the "Pharmacy of the World" due to its significant contribution to the global supply of affordable generic medicines.

The sector is supported by a well-established manufacturing base, a skilled workforce, and a strong focus on research and development (R&D).

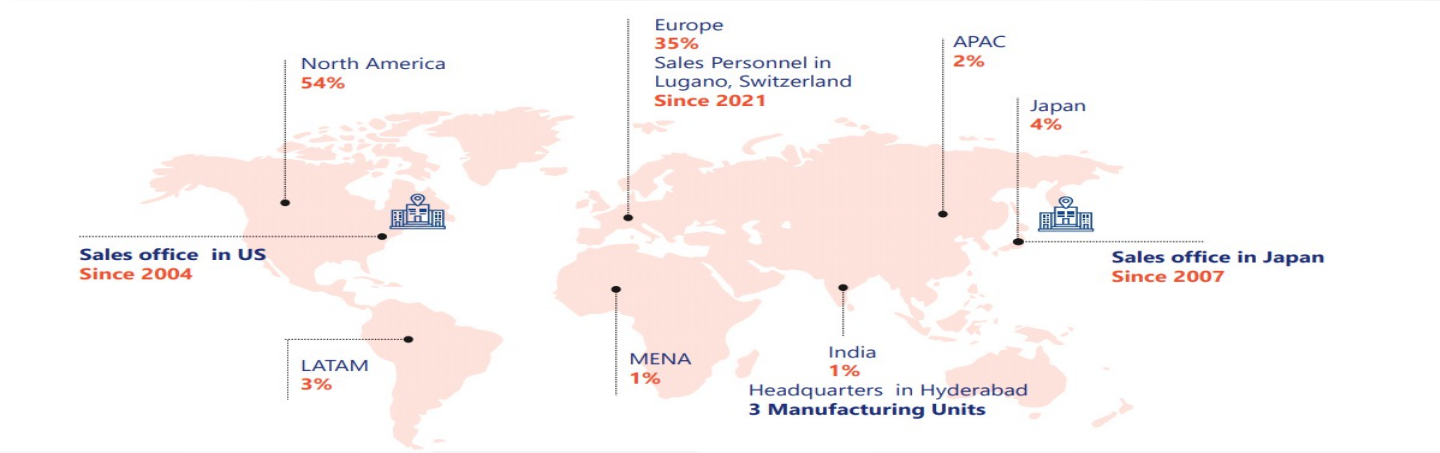


Key Segments:

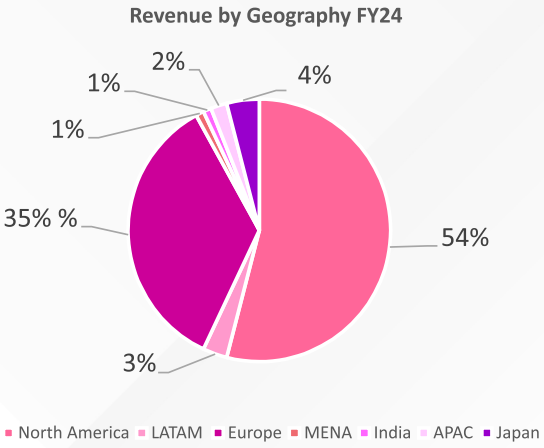
- **Generics:** India is a leader in generic drug production, contributing about 20% of the global supply. The country's emphasis on affordable healthcare solutions has positioned it as a critical player in the international pharmaceutical market.
- **Active Pharmaceutical Ingredients (APIs):** India is one of the largest producers of APIs globally, accounting for about 57% of APIs listed on the WHO's prequalified list.
- **Biosimilars and Specialty Drugs:** With an increasing focus on biologics, India's biosimilar market is growing rapidly, projected to reach USD 12 billion by 2025.

Position of Neuland Labs in the Indian Pharmaceutical Industry

- **Specialized API Manufacturer:** Neuland Labs specializes in manufacturing APIs (Active Pharmaceutical Ingredients) and intermediates, a critical segment within the pharmaceutical supply chain. With over three decades of experience, Neuland is recognized for its expertise in complex chemistry, including peptide synthesis and high-potency API production.
- **Strong Focus on Regulated Markets:** Neuland Labs has a strong presence in regulated markets like the US, Europe, and Japan, which aligns with its strategy of maintaining high-quality standards and complying with stringent regulatory requirements. Its facilities are regularly inspected by regulatory authorities such as the US FDA, EU GMP, and PMDA Japan, underscoring its global credibility.
- **Diverse Portfolio and Customer Base:** The company's diversified portfolio includes over 75 APIs across therapeutic areas like cardiovascular, central nervous system, anti-infectives, and oncology. Neuland serves a diverse customer base, including large pharmaceutical companies, generic drug manufacturers, and biotechnology firms, positioning itself as a critical supplier in the global pharmaceutical industry.
- **R&D and Innovation Focus:** Neuland Labs invests significantly in R&D to enhance its capabilities in API development, process optimization, and innovative manufacturing techniques. This focus on innovation helps the company differentiate itself in a competitive market and meet the growing demand for high-quality, cost-effective APIs.
- **Strategic Growth and Expansion:** Neuland Labs is focused on expanding its market reach in both developed and emerging markets while maintaining a robust pipeline of products in development. The company leverages its strong technical capabilities and global partnerships to drive growth and maintain a competitive edge in the industry.



Growth Drivers for Neuland Labs



1. Focus on High-Margin Segments: Neuland Labs is strategically concentrating on high-margin segments such as Specialty APIs and Custom Manufacturing Solutions (CMS). The CMS segment, which involves providing tailored manufacturing solutions to pharmaceutical companies, has been a significant growth area. This segment commands higher margins due to the specialized services offered, helping Neuland Labs to enhance its profitability.

2. Expansion in Regulated Markets: Neuland Labs has been expanding its footprint in highly regulated markets like the US, Europe, and Japan. These markets require stringent compliance with quality standards, which Neuland's facilities meet through continuous regulatory audits by bodies such as the US FDA, EMA, and PMDA Japan

3. Investment in R&D and Innovation: The company has been investing heavily in research and development to expand its API portfolio, develop complex and high-value APIs, and improve its manufacturing processes. This focus on innovation enables Neuland Labs to cater to emerging therapeutic needs, create a pipeline of new products, and enhance operational efficiencies. Additionally, the company's emphasis on developing niche APIs with high complexity acts as a significant barrier to entry for competitors.

4. Expansion of Manufacturing Capabilities: Neuland Labs has been expanding its manufacturing capabilities to support its growth strategy. The recent expansions in its facilities, particularly for high-potency APIs and peptides, have allowed the company to enhance its production capacity, improve lead times, and meet growing customer demand. This expansion positions Neuland Labs to capture a larger market share in both existing and new markets.

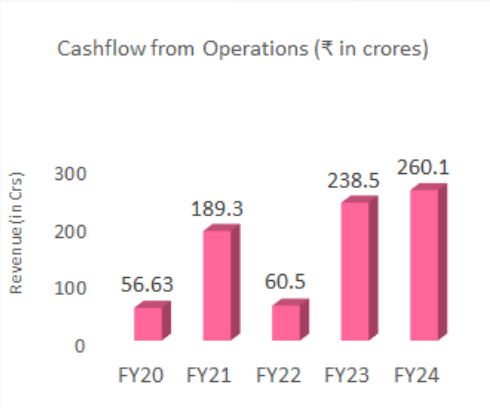
5. Strong Customer Relationships and Diversified Portfolio: Neuland Labs has built strong, long-term relationships with major pharmaceutical companies and generic drug manufacturers worldwide. Its diversified portfolio of over 75 APIs across multiple therapeutic areas helps reduce dependence on any single product or customer. This diversified approach reduces risk and provides a stable revenue stream, contributing to steady growth.

6. Adoption of Digital and Technological Innovations: The company is leveraging digital tools and technologies such as artificial intelligence and data analytics to improve its R&D processes, enhance manufacturing efficiencies, and optimize supply chain management. These technological advancements support cost reductions, faster time-to-market, and better alignment with customer needs, which are critical growth factors in the competitive pharmaceutical industry.

7. Favorable Industry Dynamics: The global pharmaceutical industry, especially the generic drugs and API segments, is expected to grow significantly due to factors such as an aging population, the rise of chronic diseases, increased healthcare spending, and the expiry of patents on several blockbuster drugs. Neuland Labs is well-positioned to capitalize on these favorable industry dynamics given its focus on generic APIs, specialty APIs, and custom manufacturing services.

8. Geographical Expansion: Neuland Labs continues to expand its geographical presence by entering new markets and strengthening its position in existing ones. The company has been targeting emerging markets with a rising demand for high-quality, cost-effective APIs, thereby creating additional growth opportunities.

Threats and Restrictions

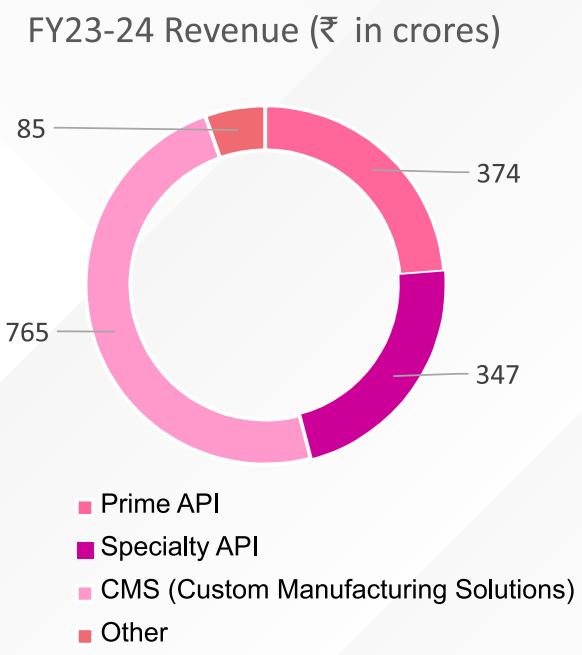


- **Regulatory Compliance and Quality Control Risks:** Neuland Labs operates in highly regulated markets (such as the US, Europe, and Japan), which require strict adherence to regulatory standards. Any lapses in compliance or quality control can lead to serious consequences, including product recalls, warning letters, bans, and significant reputational damage, potentially resulting in financial losses and operational disruptions.

- **Intense Competition and Pricing Pressure:** The pharmaceutical API market is highly competitive, with numerous global and domestic players. This competition leads to significant pricing pressure, especially for generic APIs, which can impact profit margins. Neuland Labs faces competition from both large multinational companies and other Indian firms, making it challenging to maintain market share and margins.

- **Dependence on Key Customers:** A significant portion of Neuland Labs' revenue comes from a few key customers, making the company vulnerable to changes in demand, contract renegotiations, or the loss of these customers. This concentration risk can lead to revenue volatility and financial instability if Neuland does not diversify its customer base.

- **Supply Chain Disruptions:** Neuland Labs relies heavily on a global supply chain for raw materials, particularly from countries like China. Disruptions in supply chains due to geopolitical tensions, natural disasters, pandemics, or trade restrictions can affect raw material availability, increase costs, and impact the company's ability to meet production schedules and customer demands



Future Outlook : The future outlook for Neuland Labs appears positive, driven by strategic initiatives and favorable industry trends. The company is focusing on expanding its portfolio of high-value and niche Active Pharmaceutical Ingredients (APIs), such as peptides and high-potency APIs (HPAPIs), which are in increasing demand due to the global shift towards specialty and personalized medicines. This focus allows Neuland Labs to differentiate itself, command higher margins, and reduce competitive pressures, thereby providing a robust foundation for future growth.

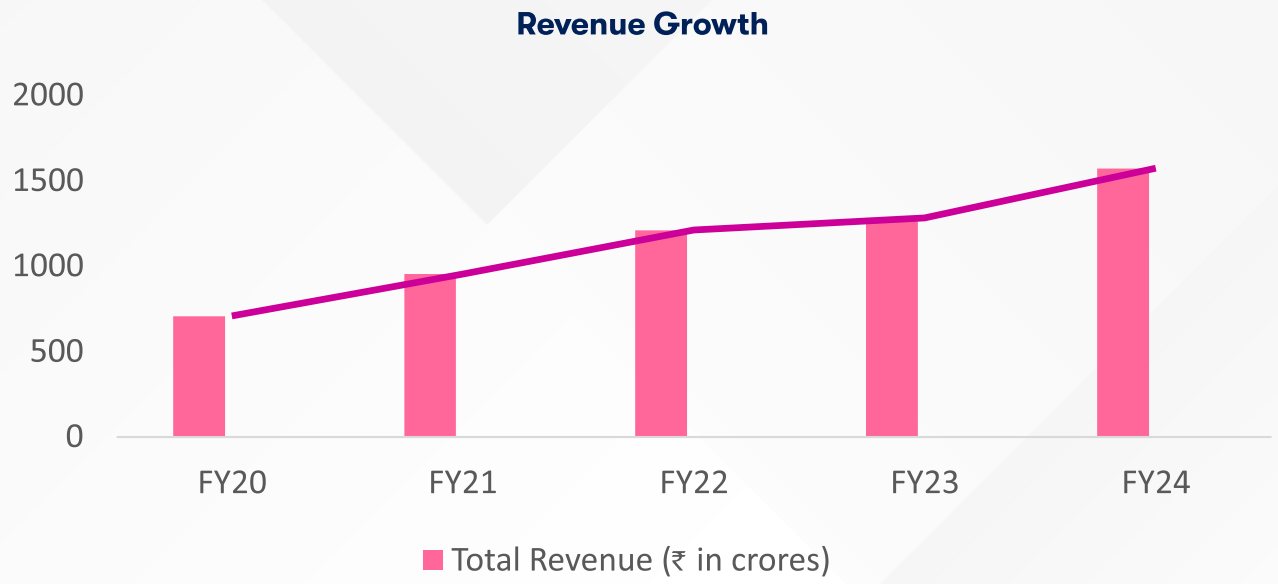
The Custom Manufacturing Solutions (CMS) segment is another key growth driver. As pharmaceutical companies increasingly outsource manufacturing to reduce costs and focus on core activities like R&D, Neuland Labs is well-positioned to capture a larger market share. Its expertise in contract development and manufacturing (CDMO) services, coupled with strong research and development (R&D) capabilities, allows the company to provide customized solutions to global pharmaceutical firms, building long-term partnerships and generating stable revenue streams.

This innovation-driven approach, along with a strong emphasis on regulatory compliance and sustainability, positions Neuland Labs to strengthen its market presence in regulated regions like the US, Europe, and Japan.

Overall, Neuland Labs is well-positioned for sustainable growth, leveraging its focus on high-margin segments, expanding its global footprint, and continuously innovating to meet evolving market needs.

Market Size

- **Total Market Cap (FY 2024):** Approximately INR 16,401 Cr .
- **Key Growth Drivers:** Expanding research, new launches in high-value generics, strong R&D pipeline, and increasing international market penetration.
- **Future Projections:** Expected revenue growth driven by ongoing expansion into regulated markets, biosimilar development, and enhanced contract manufacturing capabilities.



	Prime API	Specialty API	CMS	Other	Total
Revenue (in Crs.)	374	347	765	85	1571
Share in Revenue %	23.81	22.09	48.70	5.41	100

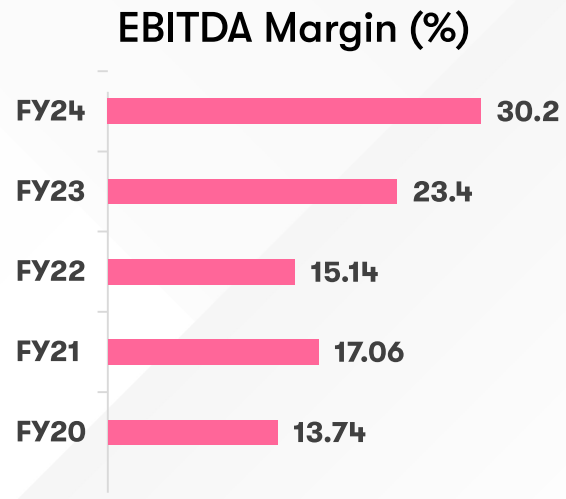
Neuland focus on niche, high-growth areas within the pharmaceutical industry positions it as a leader in specific segments, particularly oncology, making it a key player despite its relatively smaller overall market size compared to larger industry competitors.

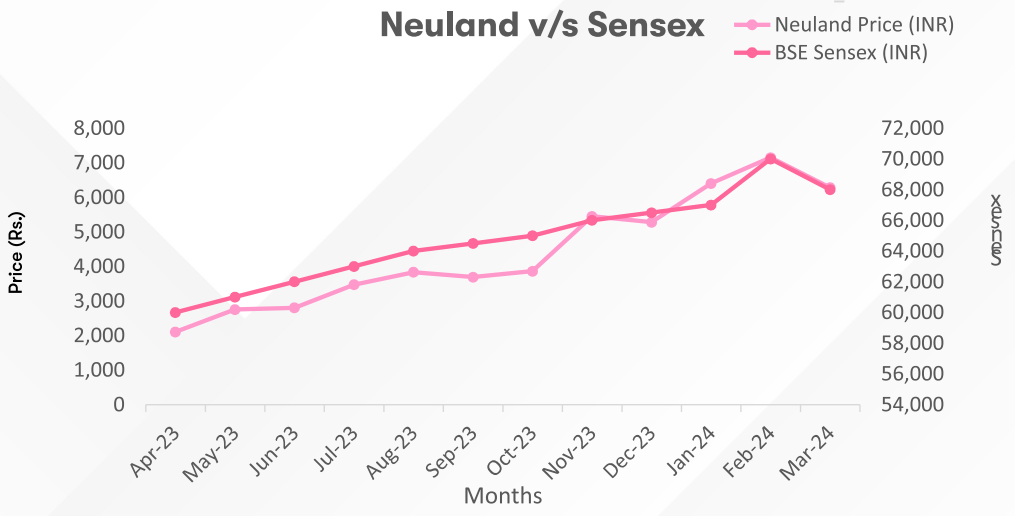
Company Performance

₹ 1571.12 Crores Revenue	₹ 474.6 Crores EBITDA
18.32 % PAT Margin	15.97 EV / EBITDA
Rs 993 BVPS	19.09 % Net Profit Margin
32.78% Return on Capital Employed	17% Return on Asset

Return on Equity	
FY20	2.5%
FY21	10.2%
FY22	7.6%
FY23	16.5 %
FY24	23.4%

Stock Price : CAGR	
10 Years:	40 %
5 Years:	91 %
3 Years:	93 %
1 Year:	253 %





Comprehensive Investment Rationale

1. Strong Market Position in Complex APIs

- Neuland Labs has carved out a strong market position in the complex APIs (Active Pharmaceutical Ingredients) segment, which serves as a primary growth engine for the company.
- The global pharmaceutical industry is increasingly focused on complex generics and specialized APIs due to the expiration of many blockbuster drug patents and the need for more affordable, effective alternatives.
- Neuland Labs has strategically positioned itself to capitalize on these trends by focusing on complex APIs, particularly those that are technically challenging to manufacture and require specialized knowledge and infrastructure.
- The company's expertise in complex chemistry, coupled with its established capabilities in peptide synthesis and chromatography, enables it to produce high-value, low-competition APIs that many competitors find challenging to replicate.
- This focus on complex APIs allows Neuland Labs to enjoy higher margins and reduced pricing pressure compared to more commoditized products.
- Additionally, the company's deep experience in regulatory filings and compliance with stringent global quality standards gives it a competitive edge, allowing it to access and expand in regulated markets such as the US, Europe, and Japan.
- Neuland Labs' focus on high-barrier-to-entry APIs positions it well for future growth.
- As the global demand for complex generics rises, the company's ability to consistently deliver high-quality APIs strengthens its relationships with global pharmaceutical companies, driving repeat business and long-term contracts.
- Furthermore, its capacity expansion in the Hyderabad facilities and investment in advanced technologies demonstrates its commitment to scaling operations to meet future market demand.

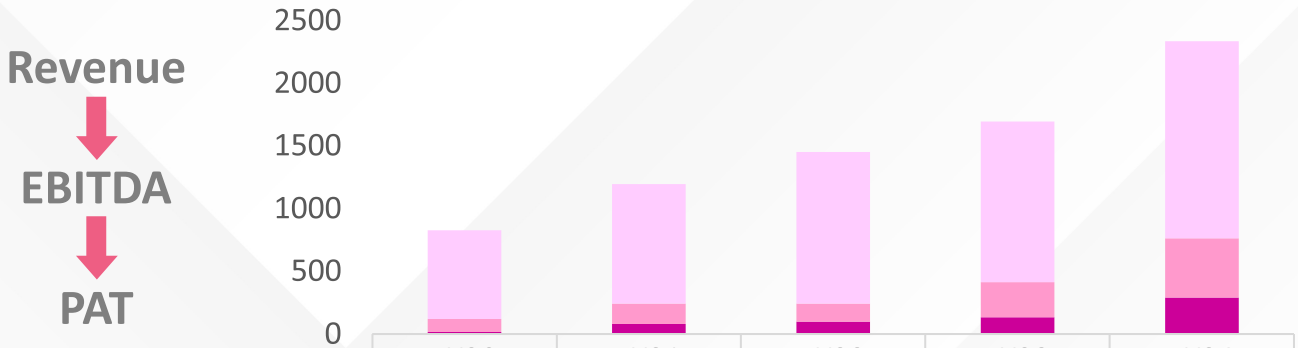
2. Robust R&D Capabilities and Innovation Pipeline

- Neuland Labs' investment in research and development (R&D) is another significant rationale for its promising future.
- The company has consistently focused on innovation to stay ahead in a competitive market.
- It operates with a robust R&D infrastructure, including multiple state-of-the-art laboratories in Hyderabad, India, where it develops APIs and complex molecules.
- This infrastructure enables the company to enhance its product portfolio and maintain its leadership in key therapeutic segments, including central nervous system (CNS) disorders, cardiovascular diseases, and oncology.
- One of Neuland Labs' strategic objectives is to expand its footprint in the Contract Development and Manufacturing Organization (CDMO) space.
- The company is enhancing its R&D capabilities to develop novel and niche APIs, which are vital for its partners in the global pharmaceutical industry.
- By focusing on complex generics and specialty APIs, Neuland is not just competing on cost but also differentiating itself through technical expertise, quality, and speed to market.

- Additionally, Neuland's innovation pipeline includes next-generation peptides, synthetic prostaglandins, and complex intermediates.
- These products cater to high-growth therapeutic categories and represent a substantial revenue opportunity as the company aims to capture a larger share of the complex generics market.
- The R&D team is also working on expanding capabilities in new therapeutic areas like oncology and endocrinology, which offer long-term growth potential.

3. Strong Customer Relationships and Strategic Partnerships

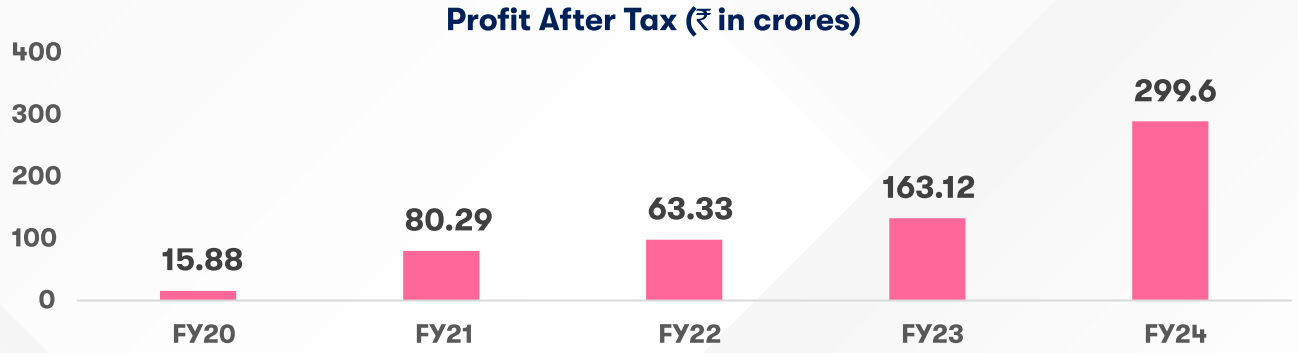
- Neuland Labs has fostered strong, enduring relationships with its global customer base, comprising some of the world's largest and most respected pharmaceutical companies.
- The company's reputation for quality and compliance has enabled it to build a diverse and loyal customer base across North America, Europe, and Asia.
- This geographical diversity mitigates risk and ensures that it is not overly reliant on any single market.
- Neuland Labs' strategy of forming long-term partnerships with leading pharmaceutical companies has enabled it to secure multi-year supply agreements, providing stability and visibility into future revenues.
- Furthermore, these relationships also enhance the company's ability to negotiate favorable terms, securing better pricing, longer contract durations, and lower costs.
- Moreover, Neuland's strong customer relationships have been built on a foundation of reliability, with the company consistently meeting stringent regulatory requirements, such as those from the USFDA, EMA, and PMDA.
- This trust in the company's quality and reliability is vital, especially in markets where regulatory scrutiny is intense and customer demands are high.
- Additionally, Neuland's partnerships often extend beyond supply agreements to collaborative development projects, positioning it as a preferred partner for co-development initiatives and expanding its role in the global pharmaceutical supply chain.

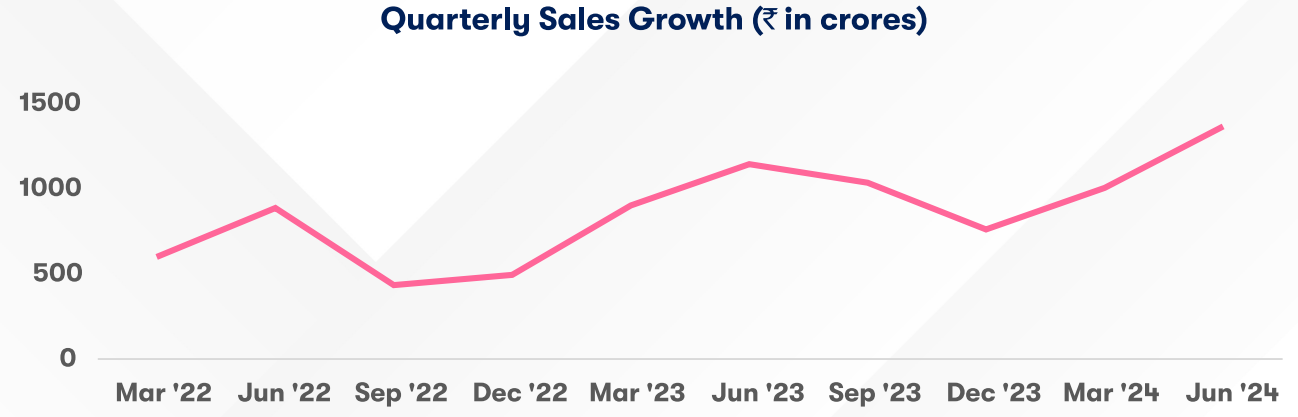


	FY20	FY21	FY22	FY23	FY24
Total Revenue (₹ in crores)	706.6	953.01	1,209.15	1,280.95	1,571.12
EBITDA (₹ in crores)	105.34	162.54	144.47	281.1	474.46
Profit After Tax (₹ in crores)	15.88	80.29	63.33	163.12	299.6

4. Focus on Expanding Capacity and Enhancing Operational Efficiency

- A critical investment rationale for Neuland Labs is its continued focus on expanding capacity and enhancing operational efficiency.
- Recognizing the growing global demand for complex APIs, Neuland has invested significantly in expanding its manufacturing facilities in Hyderabad, India.
- These expansions are aimed at increasing production capacity and accommodating a broader range of products, including more complex and high-value APIs.
- The company is also focusing on improving operational efficiency through the adoption of advanced manufacturing technologies and automation.
- This not only helps in reducing costs but also ensures consistent product quality and compliance with global regulatory standards.
- Neuland's ongoing efforts to optimize its supply chain and reduce waste further contribute to its competitive position in the market.
- This focus on operational excellence is crucial, given the competitive nature of the API market, where price pressures and cost control are critical to maintaining profitability.





Quarterly Result Update (Q1FY 24 – 25)

Particulars	Quarter Ended 30.06.2024 (₹ in crores)	Quarter Ended 31.03.2024 (₹ in crores)
Income		
Revenue from operations	439.6	385.01
Other income	4.81	5.36
Total Income	**444.41**	**390.37**
Expenses		
Cost of materials consumed	154.95	174.98
Changes in inventories of finished goods and work-in-progress	21.93	-37.47
Employee benefits expense	73.14	62.49
Finance costs	2.67	2.74
Depreciation and amortization expense	16.28	16.46
Manufacturing expenses	36.15	42.51
Other expenses	30.07	35.58
Total expenses	**335.19**	**298.16**
Profit before exceptional items and tax	109.22	92.20
Exceptional items	20.63	-
Profit before tax	**129.84**	**92.2**
Tax expense		
Current tax	30.58	21.99
Deferred tax charge (Refer Note 6)	1.39	2.65
Total comprehensive income	**97.87**	**68.45**
Earnings Per Share (of ?10 each) (In absolute ? terms)	76.28	52.66

Strengths

- **Strong Manufacturing Capabilities:** Neuland Labs operates three advanced manufacturing facilities in Hyderabad, India, which are compliant with stringent global regulatory standards like the US FDA, EU GMP, and PMDA. These facilities enable the company to produce a wide range of complex APIs and intermediates, including high-potency APIs (HPAPIs). This capacity allows Neuland to cater to diverse customer needs and maintain a robust pipeline of products.
- **Diverse Product Portfolio:** Neuland Labs has a broad portfolio of over 70 APIs across various therapeutic categories, including cardiovascular, central nervous system (CNS), anti-asthmatic, anti-fungal, and anti-diabetic drugs. This diverse range allows the company to mitigate risks associated with market volatility in any single therapeutic area and enhances its ability to serve a broad spectrum of global pharmaceutical clients.
- **Strong R&D Capabilities:** The company has invested significantly in its R&D capabilities, allowing it to innovate and develop complex molecules and high-value APIs. This investment supports the company's strategy to differentiate itself in the market and to address niche pharmaceutical needs.

S

Weaknesses

- **Dependence on Key Customers:** A significant portion of Neuland Labs' revenue is derived from a few key customers. This concentration risk can make the company vulnerable to changes in demand, pricing pressures, or any adverse events affecting these customers.
- **High Operational Costs:** Operating in the high-value API and CMS segments often involves substantial operational costs, including the costs associated with maintaining compliance with stringent global regulatory standards, high R&D expenditures, and investments in specialized manufacturing infrastructure. These costs can impact profitability, especially in a highly competitive market.
- **Exposure to Regulatory Risks:** Given the stringent regulatory environment in the pharmaceutical industry, any non-compliance or delays in regulatory approvals can lead to disruptions in production or exports, affecting the company's financial performance. Neuland's reliance on regulatory approvals across multiple jurisdictions (like the US, EU, and Japan) adds complexity to its operations.

W

Opportunities

O

- **Growing Demand for Generic APIs:** The global demand for generic APIs is expected to grow due to the increasing prevalence of chronic diseases, aging populations, and the need for cost-effective medications. As a significant player in the API market, Neuland Labs is well-positioned to capitalize on this trend.
- **Expansion into Emerging Markets:** Expanding its footprint into emerging markets such as Latin America, Southeast Asia, and Africa presents a significant growth opportunity for Neuland Labs. These markets are experiencing increasing pharmaceutical consumption due to economic development, rising healthcare awareness, and expanding healthcare access.
- **Strategic Partnerships and Collaborations:** Forming strategic partnerships and collaborations with global pharmaceutical companies, biotech firms, and research institutions can enhance Neuland Labs' market reach and product portfolio. These collaborations can also drive innovation and accelerate the development of complex and high-value APIs.

T

Threats

- **Regulatory Challenges:** The pharmaceutical industry is heavily regulated, and compliance with the regulatory standards of different countries is crucial. Any failure to comply with these regulations, delays in approvals, or changes in regulatory requirements can affect Neuland Labs' ability to market its products, leading to potential financial losses.
- **Fluctuations in Raw Material Prices:** The cost of raw materials used in the production of APIs can fluctuate due to various factors such as supply chain disruptions, geopolitical tensions, and changes in trade policies. These fluctuations can impact the company's cost structure and profitability.
- **Dependence on Outsourcing from Global Pharmaceutical Companies:** A considerable part of Neuland Labs' revenue comes from its CMS business, which depends on outsourcing by global pharmaceutical companies. Any reduction in outsourcing trends or shifts towards in-house manufacturing by these companies could negatively impact Neuland's CMS business and overall revenue.

Peer Comparison on TTM basis :

Metrics	Neuland Labs	Sun Pharma	Divi's Labs
Revenue (Rs in cr)	1,571.12	49,851	8,184
EBIDTA (Rs in cr)	474.46	1,28,599.1	2,544
PAT (Rs in cr)	289.6	96,104.30	1,600
EBIDTA Margin %	30.2	25.80%	31.08%
PAT Margin %	18.43 %	19.30%	19.55%
ROCE %	32.78 %	16.50%	22.62%
ROE %	23.47 %	14.30%	11.80%
Debt To Equity	-0.03	0.042	0.03
EPS (Rs)	233.51	39.9	60.27
Diluted EPS (Rs)	233.51	39.9	60.27
P/E	49.25	46.5	89.95
P/B	12.91	1.76	7.46
P/S	10.37	2.5	12.49
Enterprise value (Rs in cr)	16,291	16,292	90,920.19
EV/EBIDTA	34.33	12.67	35.73
Market cap (Rs in cr)	16,401 Cr.	4,70,000	1,00,068 Cr
Current ratio	2.1	2.56	7.57
Book Value / Share (Rs)	993	1,056.00	263.62
Dividend Yield %	0.11 %	1.52	0.11%
Interest Coverage	76.8	47.5	144.5
Asset T/O	3.1	0.58	0.52
RoA %	17.6 %	11.20%	13.36%

Financial Snapshot

Particulars (Consolidated)	FY 24	FY 23	FY 22	FY21	FY 20
Financial Position				(₹ In Cr)	
Equity Capital	13	13	13	13	13
Reserves	1,270	981	828	774	697
Borrowings	824	716	653	475	542
Other Liabilities	454	457	302	356	257
Total Liabilities	1,833	1,580	1,383	1,325	1,231
Fixed Assets	824	758	767	716	653
CWIP	46	41	20	17	24
Investments	1	1	4	7	8
Operating Results				(₹ In Cr)	
Total Revenue	1,571.12	1,280.95	1,209.15	953.01	706.6
Total Expenses	1,169.70	985.2	871	847.7	713.7
Profit Before Tax	401.4	215.7	82.2	105.3	52.9
Tax	401.4	215.7	82.2	105.3	52.9
Net Profit	289.6	133.12	98.33	80.29	15.88
Ratios					
Current Ratio	2.1	1.7	1.6	1.5	1.4
ROE %	23.47	16.5	7.9	10.27	2.55
ROCE %	32.80%	21.30%	9.70%	13.50%	8.90%
EBDIT Margin %	30.20%	23.40%	15.10%	17.10%	13.70%
Net Profit Margin %	19.20%	13.70%	6.70%	8.40%	2.10%
Dividend Payout to NP %	6	7.87	10	7.99	19.45
EPS	233.5	127.1	49.5	62.6	12.4
Total Debt to Total Equity	0.1	0.1	0.2	0.2	0.4
Cash Flows				(₹ In Cr)	
Cash from Operating Activity	261	237	60	189	57
Cash from Investing Activity	-150	-61	-95	-84	-49
Cash from Financing Activity	-69	-136	38	-114	-5
Net Cashflow	42	40	3	-9	3

Disclaimer: This report has been prepared by the research department of Invasset, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal. Invasset have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice.

The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice. Recipients of this material should rely on their own investigations and take their own professional advice. Invasset or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Invasset. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

Invasset and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavour to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to Invasset or any of its affiliates to any registration or licensing requirement within such jurisdiction. Invasset may or may not hold any securities discussed in the article in its portfolios. Invasset may or may not take decisions based on the information contained in the article while curating portfolios for its clients. Without limiting any of the foregoing, in no event shall Invasset, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

This research has been done by the Core Fundamental Research Team of InvAsset PMS Desk.

Anirudh Garg
anirudhgarg@invasset.com

Harshal Dasani
harshaldasani@invasset.com

Kushal Ahuja
kushalahuja@invasset.com

INVASSET

India's Best Performing and Most Customer Centric PMS

MUMBAI
911 One Lodha Place,
Lower Parel, Mumbai 400013

GURUGRAM
4th Floor Two Horizon Centre,
DLF Phase 5, Gurugram,
Haryana 122002

LUDHIANA
1401, Aspen 2, Centara Greens,
Pakhowal Road, Opp. Riviera Resort,
Ludhiana 141001

1800-309-2172
98158-10172

info@invasset.com

www.invasset.com