

Laurus Labs

Estimate change



TP change



Rating change



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Bloomberg	LAURUS IN
Equity Shares (m)	106
M.Cap.(INRb)/(USDb)	100.1 / 1.1
52-Week Range (INR)	944 / 298
1, 6, 12 Rel. Per (%)	72/125/177
12M Avg Val (INR M)	352

Financials & valuations (INR b)

Y/E MARCH	FY20	FY21E	FY22E
Sales	28.3	41.4	47.1
EBITDA	5.6	11.5	12.7
Adj. PAT	2.6	6.9	7.5
EBIT Margin (%)	13.3	22.7	21.8
Cons. Adj. EPS (INR)	24.1	65.4	70.9
EPS Gr. (%)	132.6	170.9	8.5
BV/Sh. (INR)	172.5	231.3	295.1

Ratios

Net D:E	0.6	0.4	0.1
RoE (%)	15.1	32.4	27.0
RoCE (%)	12.3	23.7	21.7
Payout (%)	10.0	10.0	10.0

Valuations

P/E (x)	39.0	14.4	13.3
EV/EBITDA (x)	19.4	9.4	8.2
Div. Yield (%)	0.2	0.6	0.6
FCF Yield (%)	0.8	2.7	5.8
EV/Sales (x)	3.9	2.6	2.2

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	32.1	32.0	32.8
DII	8.8	31.6	32.2
FII	16.1	11.3	12.4
Others	43.0	25.1	22.6

FII includes depository receipts

CMP: INR934
TP: INR1215 (+30%)
Buy

Metamorphosis underway

Sharp ramp-up in earnings led by FDF/API and higher operating leverage

- Laurus Labs (LAURUS) delivered all-time high quarterly PAT at INR1.7b. It is more than average of annual PAT over FY17-20. The company expects this to be sustainable on the back of diversified portfolio, increased customer base, addition of capacity for API/formulation and supported with better operating leverage.
- After a long wait, the efforts towards product development/building manufacturing base are reflected in the phenomenal financial performance. In fact, 1QFY21 redefines the earnings assessment over near to medium term. Aligning with the new guidance, we raise our estimates to 2x our previous estimates for FY21/FY22. Our target PE remains unchanged and target price of INR1,215 at 17x 12M forward earnings factors just the earnings upgrade. Sustainability of growth momentum in FY22 can drive further re-rating. Reiterate Buy.

Strong beat on estimates

- LAURUS' 1QFY21 revenues grew at a robust rate of 77% YoY to INR9.7b (est.: INR7.2b), led by Formulations (FDF; 36% of sales) revenue of INR3.5b v/s INR1.1b YoY, Other API (14% of sales) revenue of INR1.3b v/s INR440m YoY, 37% YoY growth in CDMO (10% of sales), and 19% YoY growth in Anti-Viral API (35% of sales).
- FDF sales growth was led by the execution of orders from Global Fund and PEPFAR, and country-specific tenders in the ARV segment; increased volumes of commercialized ANDAs; and (partly) the launch of HCQS in US.
- CDMO sales growth was led by the commencement of the commercial supply of four products, in addition to better traction in existing products.
- The gross margin (GM) was up 410bp YoY to 54.2% on a superior product mix.
- The EBITDA margin expanded at a higher rate of 1,400bp YoY to 28.6% (est.: 20%) on better GMs and controlled opex (as % of sales; employee cost / other expenses down 310bp/620bp YoY).
- EBITDA came in at INR2.8b (est.: INR1.7b), 3.5x YoY.
- PAT grew almost 14x YoY to INR1.7b on strong sales growth, superior margins, reduced interest outgo, and lower tax rate.

Highlights from management commentary

- Based on growth visibility in Formulations as well as the API segment, LAURUS is confident of sustaining the momentum in earnings.
- HCQS sales reflected in Formulations/API are less than 5% of sales and GM at the consolidated level.
- Overall growth for the quarter was led largely by higher volume off-take.
- Laurus has guided to clock revenues of INR13.5b in the ARV-API segment for FY21, led by better off-take in Tenofovir, Lamivudine, and DTG and slower decline in Efavirenz sales.
- LAURUS would incur capex of INR3.5b for FY21 (spent INR910m in 1QFY21) toward debottlenecking and brownfield expansions.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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Valuation and view

- LAURUS has shown strong improvement in performance, with PAT doubling to INR2.5b in FY20 and coming in at INR1.7b in 1QFY21.
- We expect 2.7x FY20 earnings for FY21, primarily led by a doubling of formulation sales, 30% YoY growth in each API and CDMO segment supported with ~780bp margin expansion. We double our earnings estimate to INR65/INR71 for FY20/FY21 and value LAURUS at 17x 12M forward earnings to arrive at TP of INR1,215.
- We remain positive on Laurus on the back of superior execution across revenue segments, resulting in expansion of ROE to 27% (from 15% in FY20) and sufficient levers to sustain the earnings momentum over the medium term. Reiterate **Buy**.

Consolidated – Quarterly Earnings Model

(INR m)

Y/E March	FY20				FY21E				FY20	FY21E	FY21	vs Est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE	(%)	
Net Sales	5,506	7,124	7,296	8,391	9,743	10,312	10,513	10,845	28,317	41,414	8,386	16.2
YoY Change (%)	2.1	21.1	37.8	32.1	77.0	44.7	44.1	29.2	23.6	46.2	52.3	
Total Expenditure	4,705	5,762	5,863	6,505	6,960	7,535	7,633	7,813	22,672	29,942	6,710	3.7
EBITDA	801	1,362	1,433	1,886	2,783	2,777	2,880	3,032	5,645	11,472	1,676	66.0
YoY Change (%)	-6.4	49.4	63.3	68.4	247.4	103.9	101.0	60.7	50.0	103.2	109	
Margins (%)	14.6	19.1	19.6	22.5	28.6	26.9	27.4	28.0	19.9	27.7	20.0	
Depreciation	458	478	476	461	488	495	510	569	1,873	2,062	465	
EBIT	343	884	957	1,426	2,295	2,282	2,370	2,463	3,773	9,410	1,211	89
YoY Change (%)	-27.6	72.2	112.7	108.1	569.6	158.2	147.6	72.8	77.8	149.4	253	
Margins (%)	6.2	12.4	13.1	17.0	23.6	22.1	22.5	22.7	13.3	22.7	14.4	63.1
Interest	225	256	208	207	151	170	180	208	896	709	200	
Other Income	45	14	19	17	71	35	25	35	59	166	20	
PBT before EO expense	162	642	768	1,236	2,215	2,147	2,215	2,290	2,936	8,866	1,031	114.7
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	162	642	768	1,236	2,215	2,147	2,215	2,290	2,936	8,866	1,031	114.7
Tax	43	92	82	166	497	462	481	512	383	1,951	227	119.0
Rate (%)	26.4	14.4	10.7	13.4	22.4	21.5	21.7	22.3	13.1	22.0	22.0	
Reported PAT	119	549	686	1,070	1,718	1,685	1,734	1,779	2,553	6,916	805	113.5
Adj PAT	119	549	686	1,070	1,718	1,685	1,734	1,779	2,553	6,916	805	113.5
YoY Change (%)	-40.8	98.6	284.9	147.8	1,337.7	206.7	152.9	66.2	132.6	170.9	573	
Margins (%)	2.2	7.7	9.4	12.8	17.6	16.3	16.5	16.4	9.0	16.7	10	

Key performance Indicators (Consolidated)

Y/E March	FY20				FY21E				FY20	FY21E	FY21
INRm	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE		1QE	
API	3,720	4,666	3,584	4,239	5,220	5,491	5,395	5,100	16,094	21,318	3,494
YoY Change (%)	(19.3)	(10.7)	(19.6)	(14.0)	40.3	17.7	50.5	20.3	(14.5)	32.5	(5.5)
Custom Synthesis	730	850	780	1,480	1,000	1,144	1,174	1,509	3,970	4,827	738
YoY Change (%)	9.1	13.8	44.5	38.5	40.3	60.0	25.0	(1.9)	5.7	30.0	25.0
Formulation	1,060	1,599	2,921	2,673	3,520	3,678	3,943	4,127	8,253	15,268	2,756
YoY Change (%)	1978.4	7168.2	1429.3	847.9	232.1	130.0	35.0	54.4	1411.5	85.0	160.0
Cost Break-up											
RM Cost (% of Sales)	49.9	50.5	49.4	49.8	45.8	46.2	46.2	47.0	49.9	46.3	49.4
Staff Cost (% of Sales)	14.6	12.3	12.1	10.5	11.5	12.2	12.3	11.2	12.2	11.8	12.2
R&D Expenses(% of Sales)	7.6	5.4	5.5	5.5	4.3	3.7	3.8	5.5	6.0	4.1	5.8
Other Cost (% of Sales)	20.4	17.8	18.2	16.8	14.2	14.5	14.0	14.1	18.0	14.2	19.0
Gross Margins(%)	50.1	49.5	50.6	50.2	54.2	53.8	53.8	53.0	50.1	53.7	50.6
EBITDA Margins(%)	14.6	19.1	19.6	22.5	28.6	26.9	27.4	28.0	19.9	27.7	19.1
EBIT Margins(%)	6.2	12.4	13.1	17.0	23.6	22.1	22.5	22.7	13.3	22.7	12.7

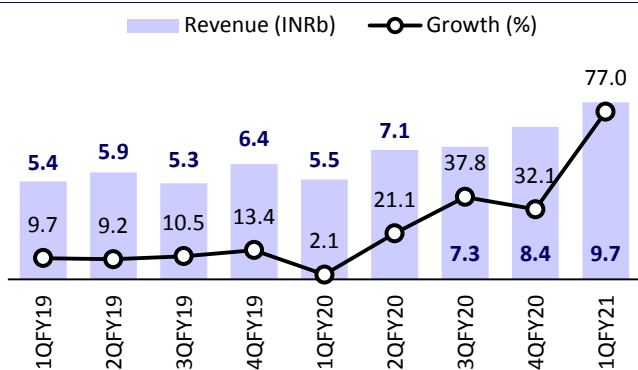


Other highlights from the call

- Based on the USFDA approval for TLE 400 / TLE 600, it is in the process of getting its products approved in ROW markets; thus, commercialization is expected in the coming quarters.
- Supported by a long-term partnership with a leading Generics player in the EU, LAURUS has better visibility in the Formulations business from the EU market over FY21 and beyond.
- Laurus has maintained its market share in Pregabalin for the US market.
- While cash flow expected to increase owing to such a strong performance, the company intends to plow back cash for growth rather than debt reduction.
- It plans to increase overall API manufacturing capacity by 20% over 12 months and Formulations capacity by 80% over 15–18 months on the expectation of an increase in demand.

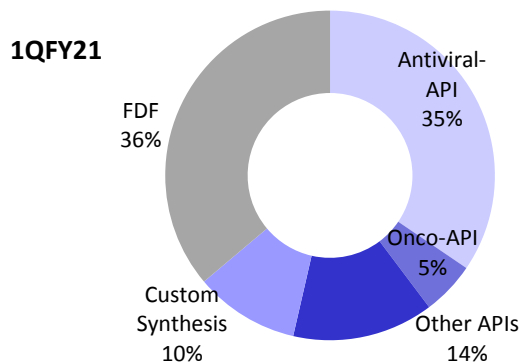
Key exhibits

Exhibit 1: Revenue up 77% YoY, driven by Formulations



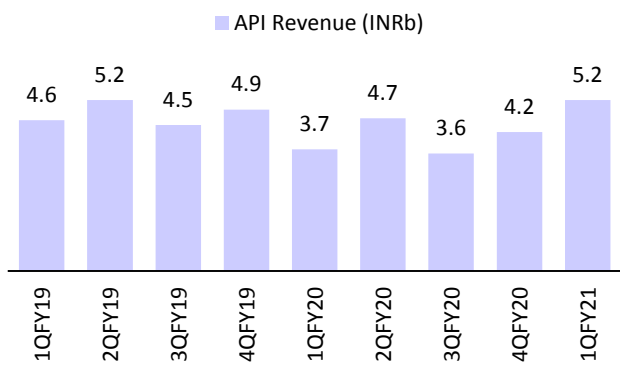
Source: MOFSL, Company

Exhibit 2: FDF sales share increases to 36% (19% in 1QFY20)



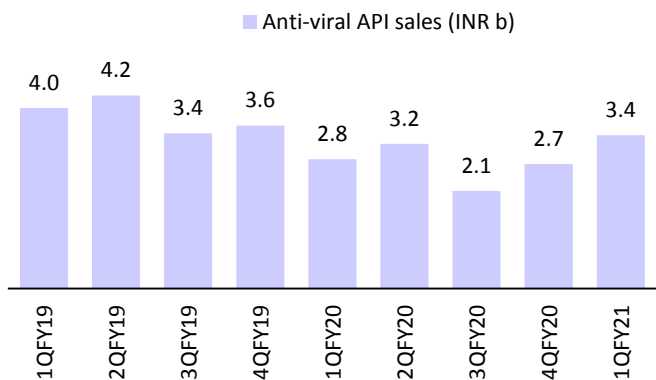
Source: MOFSL, Company

Exhibit 3: API sales grow 40% YoY

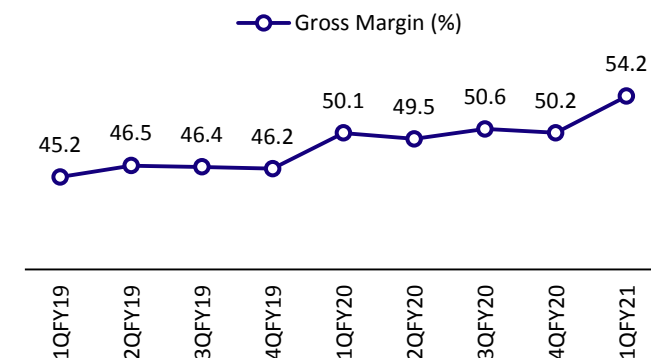


Source: MOFSL, Company

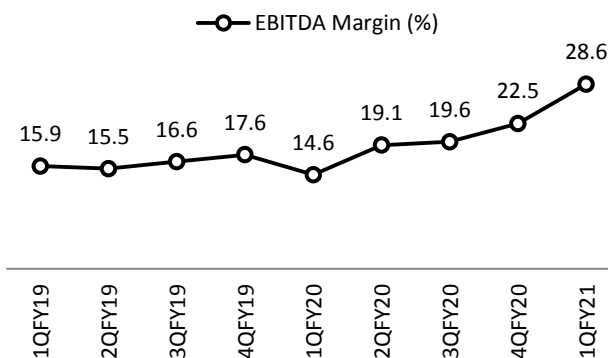
Exhibit 4: ARV-API sales grew 19% YoY



Source: MOFSL, Company

Exhibit 5: Superior product mix, favorable currency drive GM...

Source: MOSL, Company

Exhibit 6: ...controlled cost also drives EBITDA margin

Source: MOSL, Company

Valuation and view

Strengthening momentum in FDF

Supported by strong product development capabilities, order procurement from institutional agencies, and capacity building to support manufacturing in FDF, LAURUS has aggressively ramped-up revenue in the FDF segment to INR3.5b for 1QFY21 from INR140m in 4QFY18. Revenue has been driven across segments (ARV / Generic Formulations to the US and EU).

The company continues to add levers within the FDF segment.

- In addition to DTG, LAURUS has received approval for TLE 400 / TLE 600 from the USFDA and is in the process of obtaining regulatory approval in ROW markets.
- It has filed 26 ANDAs with the USFDA and received approval for 8 ANDAs (final approval) and 5 ANDAs (tentative approval).
- It has secured contract manufacturing opportunities with a leading Generics player in the EU on a long-term basis, adding further growth visibility in the FDF segment.
- Accordingly, we expect a 44% CAGR in LAURUS' FDF sales over FY20–22.

Customer additions, increased product offerings to drive growth in Synthesis segment

Based on its strong chemistry-related capabilities, the company generated INR1b (+37% YoY) in revenue in the Synthesis segment for 1QFY21 through contract research and manufacturing services. It has integrated projects from the pre-clinical to commercial stages from large global innovators. In addition to acquiring sizeable business from Aspen in this segment, LAURUS has commenced the commercial supply of two more products, offering better visibility for growth. We expect the company to post a sales CAGR of 31% in the segment over FY20–22.

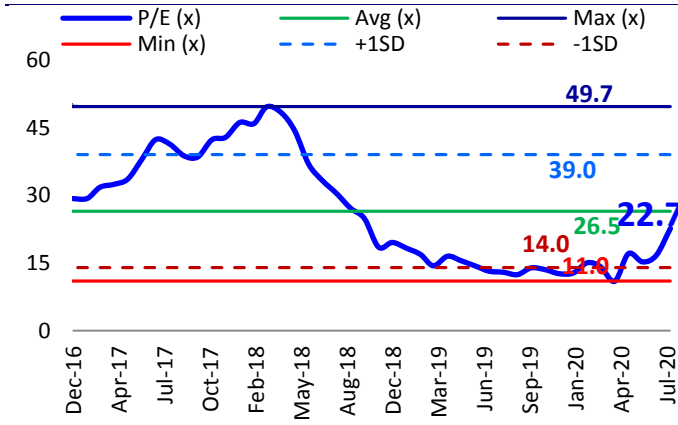
Positive API outlook

The API business posted a strong quarter with growth of 40% YoY. The ARV-API business witnessed traction on account of Tenofovir, Lamivudine, and Dolutegravir. The management alluded to stability in Efavirenz sales owing to market share gains. The addition of new molecules is expected to drive a robust 46% CAGR in the Other API segment. Accordingly, we expect the API business to have a 20% CAGR in the API segment over FY20–22.

Return ratios on the path to strong recovery

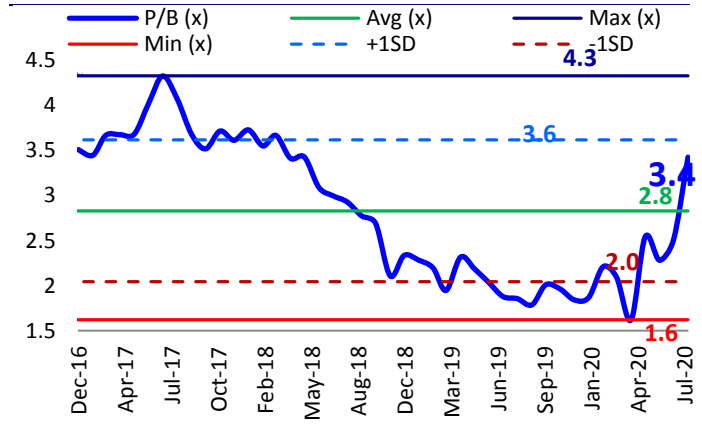
- We expect 2.7x FY20 earnings for FY21, primarily led by a doubling of formulation sales, 30% YoY growth in each API and CDMO segment supported with ~780bp margin expansion.
- Accordingly, we expect RoE to improve to 32% in FY21 v/s 15.1% in FY20.
- We double our earnings estimate to INR65/INR71 for FY20/FY21 and value LAURUS at 17x 12M forward earnings to arrive at TP of INR1,215. Reiterate **Buy**.

Exhibit 7: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 8: P/B chart



Source: MOFSL, Company, Bloomberg

Financials and valuations

Consolidated - Income Statement								(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Income from Operations	13,266	17,776	19,046	20,690	22,919	28,317	41,414	47,144
Change (%)	14.4	34.0	7.1	8.6	10.8	23.6	46.2	13.8
Total Expenditure	11,264	14,154	14,970	16,557	19,155	22,672	29,942	34,415
% of Sales	84.9	79.6	78.6	80.0	83.6	80.1	72.3	73.0
EBITDA	2,002	3,622	4,076	4,133	3,764	5,645	11,472	12,729
Margin (%)	15.1	20.4	21.4	20.0	16.4	19.9	27.7	27.0
Depreciation	615	864	1,060	1,255	1,642	1,873	2,062	2,458
EBIT	1,387	2,758	3,016	2,879	2,122	3,773	9,410	10,271
Int. and Finance Charges	1,062	1,111	999	796	882	896	709	829
Other Income	341	44	334	292	162	59	166	189
PBT bef. EO Exp.	666	1,690	2,352	2,374	1,402	2,936	8,866	9,630
EO Items	0	0	0	0	-204	0	0	0
PBT after EO Exp.	666	1,690	2,352	2,374	1,198	2,936	8,866	9,630
Total Tax	-15	349	439	698	260	383	1,951	2,128
Tax Rate (%)	-2.3	20.6	18.7	29.4	21.7	13.1	22.0	22.1
Minority Interest	-2	4	11	0	0	0	0	0
Reported PAT	683	1,337	1,903	1,676	938	2,553	6,916	7,502
Adjusted PAT	683	1,337	1,903	1,676	1,097	2,553	6,916	7,502
Change (%)	-29.7	95.7	42.3	-11.9	-34.5	132.6	170.9	8.5
Margin (%)	5.2	7.5	10.0	8.1	4.8	9.0	16.7	15.9

Consolidated - Balance Sheet								(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	155	158	1,058	1,060	1,064	1,609	1,609	1,609
Preference Capital	666	666	0	0	0	0	0	0
Total Reserves	6,419	7,744	12,247	13,766	14,520	16,629	22,850	29,599
Net Worth	7,241	8,568	13,304	14,826	15,584	18,238	24,459	31,208
Total Loans	8,211	10,277	8,417	9,649	10,030	10,123	10,143	9,143
Deferred Tax Liabilities	113	-549	-699	-529	-534	-739	-739	-739
Capital Employed	15,565	18,296	21,023	23,946	25,081	27,621	33,863	39,611
Gross Block	9,865	11,063	14,088	17,851	20,976	23,821	25,859	28,766
Less: Accum. Deprn.	1,855	853	1,886	3,141	4,783	6,655	8,717	11,175
Net Fixed Assets	8,010	10,210	12,202	14,711	16,193	17,166	17,142	17,591
Goodwill on Consolidation	0	0	97	97	97	97	97	97
Capital WIP	1,097	696	1,433	1,632	1,096	672	1,634	1,927
Total Investments	74	70	34	34	34	34	34	34
Curr. Assets, Loans&Adv.	9,757	10,710	12,069	13,165	15,357	19,129	27,942	34,836
Inventory	4,755	4,871	5,090	5,848	6,819	9,052	12,201	14,307
Account Receivables	2,851	4,449	5,676	5,706	7,099	7,914	11,121	12,014
Cash and Bank Balance	589	288	41	31	30	17	1,484	4,944
Loans and Advances	1,562	1,103	1,262	1,580	1,408	2,145	3,137	3,571
Curr. Liability & Prov.	3,373	3,390	4,812	5,692	7,697	9,477	12,987	14,874
Account Payables	2,308	2,476	2,631	3,123	4,883	6,156	8,130	9,345
Other Current Liabilities	922	770	1,988	2,316	2,449	2,753	4,026	4,583
Provisions	143	144	193	253	365	568	831	945
Net Current Assets	6,383	7,320	7,257	7,473	7,660	9,652	14,955	19,962
Appl. of Funds	15,565	18,296	21,023	23,946	25,081	27,621	33,863	39,611

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
EPS	6.5	12.4	17.8	15.8	10.4	24.1	65.4	70.9
Cash EPS	12.3	20.6	27.8	27.7	25.9	41.8	84.9	94.2
BV/Share	68.5	81.0	125.8	140.2	147.4	172.5	231.3	295.1
DPS	0.0	0.5	1.5	0.0	0.0	2.0	5.5	5.9
Payout (%)	0.0	4.4	10.0	0.0	0.0	10.0	10.0	10.0
Valuation (x)								
P/E	145.8	75.7	53.0	59.4	90.8	39.0	14.4	13.3
Cash P/E	76.7	45.7	33.9	34.0	36.4	22.5	11.1	10.0
P/BV	13.8	11.6	7.5	6.7	6.4	5.5	4.1	3.2
EV/Sales	8.1	6.2	5.7	5.3	4.8	3.9	2.6	2.2
EV/EBITDA	53.6	30.3	26.5	26.4	29.1	19.4	9.4	8.2
Dividend Yield (%)	0.0	0.0	0.2	0.0	0.0	0.2	0.6	0.6
FCF per share	-42.3	-13.6	5.2	-7.1	4.9	7.9	25.4	55.4
Return Ratios (%)								
RoE	12.6	16.9	17.4	11.9	7.2	15.1	32.4	27.0
RoCE	14.4	13.0	13.4	9.7	7.1	12.3	23.7	21.7
RoIC	14.0	14.6	13.5	9.7	7.2	12.9	25.5	25.2
Working Capital Ratios								
Inventory (Days)	131	100	98	103	109	117	108	111
Debtor (Days)	78	91	109	101	113	102	98	93
Creditor (Days)	64	51	50	55	78	79	72	72
Leverage Ratio (x)								
Current Ratio	2.9	3.2	2.5	2.3	2.0	2.0	2.2	2.3
Interest Cover Ratio	1.3	2.5	3.0	3.6	2.4	4.2	13.3	12.4
Net Debt/Equity	1.0	1.2	0.6	0.6	0.6	0.6	0.4	0.1

Consolidated - Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
OP/(Loss) before Tax	666	1,690	2,352	2,374	1,198	2,936	8,866	9,630
Depreciation	615	864	1,060	1,255	1,642	1,873	2,062	2,458
Interest & Finance Charges	862	1,038	931	505	720	837	544	641
Direct Taxes Paid	-168	-333	-501	-698	-260	-383	-1,951	-2,128
(Inc)/Dec in WC	-2,507	-1,544	-525	-226	-187	-2,005	-3,837	-1,546
CF from Operations	-531	1,716	3,317	3,209	3,113	3,257	5,684	9,055
Others	-116	103	3	0	0	0	0	0
CF from Operating incl EO	-647	1,820	3,320	3,209	3,113	3,257	5,684	9,055
(Inc)/Dec in FA	-3,821	-3,262	-2,774	-3,962	-2,589	-2,421	-3,000	-3,200
Free Cash Flow	-4,468	-1,443	546	-753	523	836	2,684	5,855
(Pur)/Sale of Investments	-148	140	-113	0	0	0	0	0
Others	112	-34	-143	292	162	59	166	189
CF from Investments	-3,858	-3,156	-3,030	-3,670	-2,428	-2,362	-2,834	-3,011
Issue of Shares	2,944	3	2,860	3	4	545	0	0
Inc/(Dec) in Debt	2,745	2,063	-2,387	1,278	429	139	20	-1,000
Interest Paid	-828	-1,033	-950	-796	-882	-896	-709	-829
Dividend Paid	0	0	-59	0	0	-256	-694	-753
Others	0	2	-1	-34	-236	-440	0	0
CF from Fin. Activity	4,861	1,035	-537	451	-685	-908	-1,384	-2,582
Inc/Dec of Cash	356	-301	-247	-10	0	-12	1,466	3,461
Opening Balance	232	588	287	40	30	30	18	1,484
Closing Balance	588	287	40	30	29	18	1,484	4,944

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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