

# LAURUS LABS LTD

STOCK REPORT BY FINVEZTO.COM

UPDATED ON

15 April 2023

# Our Investment Mantra

**Look for Companies that consistently grow their Revenue, Profits & Free Cash Flow by maintaining a stable or increasing Profit Margin & ROCE with a manageable amount of Debt.**



Product B  
Product C  
FINVEZTO  
Product A

Column Chart



Stacked Column



# Analysis Methodology



# Analysis Methodology

## The 3 Checks



1 Quality



2 Safety



3 Value





# 01 Quality

- Growth
- Profitability
- Efficiency
- Cash Flow Assessment
- Quality Assessment of Revenue and Profits
- Pricing power & Competitive Advantage Assessment
- Is the Business Creating “Value” for Shareholders?
- Dividend Payout Assessment

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# 02 Safety

- Debt & Leverage
- Liquidity
- Red Flags & Suspicious Activities Checklist

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# 03 Value



- Intrinsic Value
- Intrinsic Value Growth Rate
- Future Growth already accounted for in Share Price
- Margin of Safety (Quantitative & Qualitative)
- Mind Value of Investors

# Let's start with 01. Quality Check

\$81,725



# Quality - Dashboard

### Revenue & EBIT in ₹Cr



### EBIT Margin %



### Return on Capital Employed ROCE %



### FCFF ■ FCFE



### Operating Cash Conversion

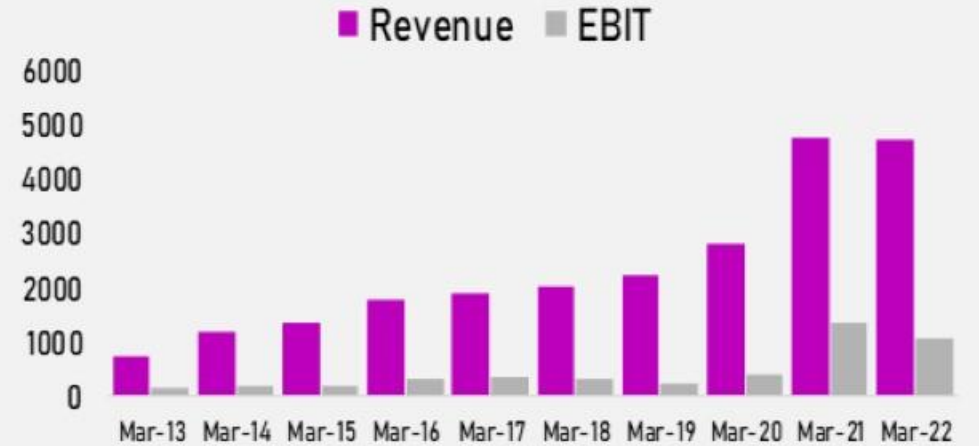


# Revenue & EBIT Growth

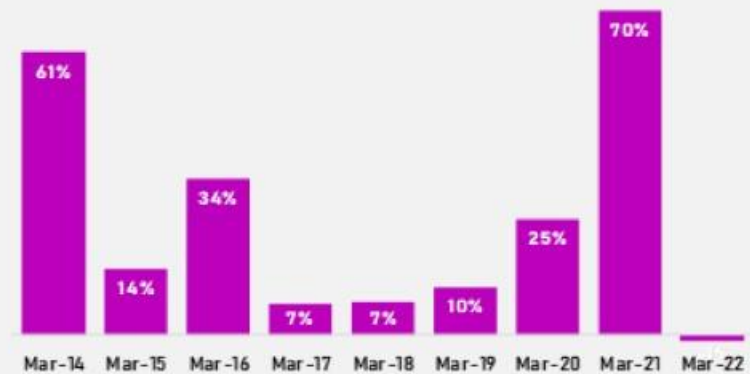
- ✓ The first indicator of quality is consistency in growth of Revenue & EBIT
- ✓ The graph on the right shows the last 10-Years Revenue and EBIT of this company
- ✓ Look for a consistent rising trend in Revenue & EBIT
- ✓ Poor Revenue Growth could indicate lack of demand for the company's products due to declining quality, lack of skills of the company personnel etc.

**ALERT:** When you read the Annual report, check if the Revenue growth has come through more Volumes sold or an Increase in Price.

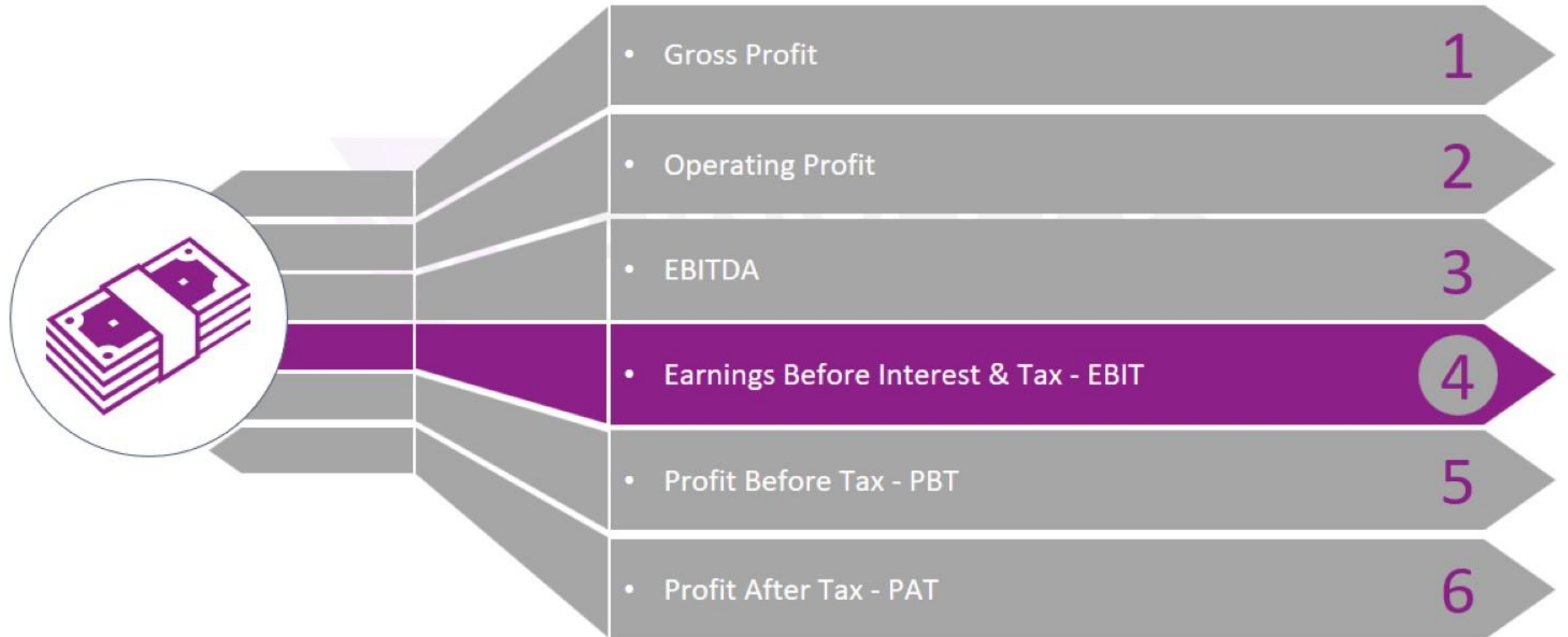
## Revenue & EBIT in ₹Cr



## Revenue Change %



**Note: There are 6 Profit Measures. But, we prefer to use EBIT in most of our calculations. EBIT is the core business profit before reducing the financing expenses. It is a cleaner number than Profit After Tax and helps in gauging the business better.**



# EBIT Margin %

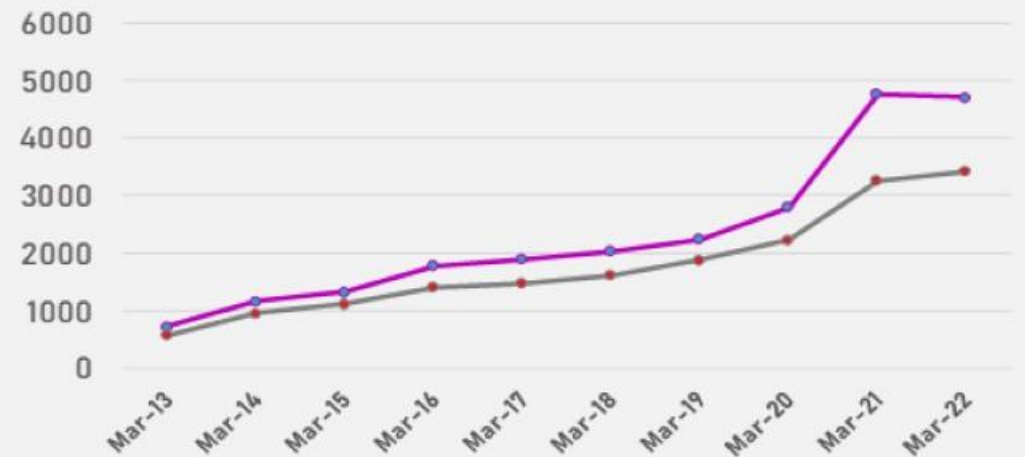
- ✓ The graph on the right shows the last 10-Years EBIT Margin% during the different economic cycles.
- ✓ Look for Stable or Increasing Margins.
- ✓ If a company can maintain its margins for several years, it indicates pricing power & competitive advantage.
- ✓ Fluctuations in the Margin could indicate a Cyclical business. We usually avoid investing in such stocks.
- ✓ Look for Businesses with an Average EBIT Margin of at least 10%
- ✓ EBIT margin will vary across sectors. Please compare it with peers.

**ALERT:** Check if the EBIT margin has grown because of increasing revenues or reducing costs. If it is mainly because of reducing costs, then protecting future margins might not be possible. You should stay away from such companies.

## EBIT Margin %



## Revenue Expenses



# Factors affecting EBIT Margin

## Price

Higher Product Prices boost Margin.  
It is the ability of the company to command a premium in the market.

## Cost Structure

Companies with high fixed costs see an increase in margins when revenue increases.

## Revenue Mix

Some products are more profitable than other products that the company sells.

## Volumes Sold

Increase in the volume of products sold by the company.

## Operational Leverage

Increase in Sales elevating the Profit Margins. Typical to Manufacturing Businesses.

# ROCE

- ✓  $ROCE = EBIT / \text{Average Capital Employed}$
- ✓ The graph on the right shows the last 10-Years ROCE
- ✓ ROCE indicates the profits the company is generating using the capital available. It indicates if the borrowed debt and shareholders' capital is being put to good use or not.
- ✓ It is also indicative of how well the management is allocating capital.
- ✓ ROCE should be stable and increasing. Check if the ROCE is at least 10% or above.

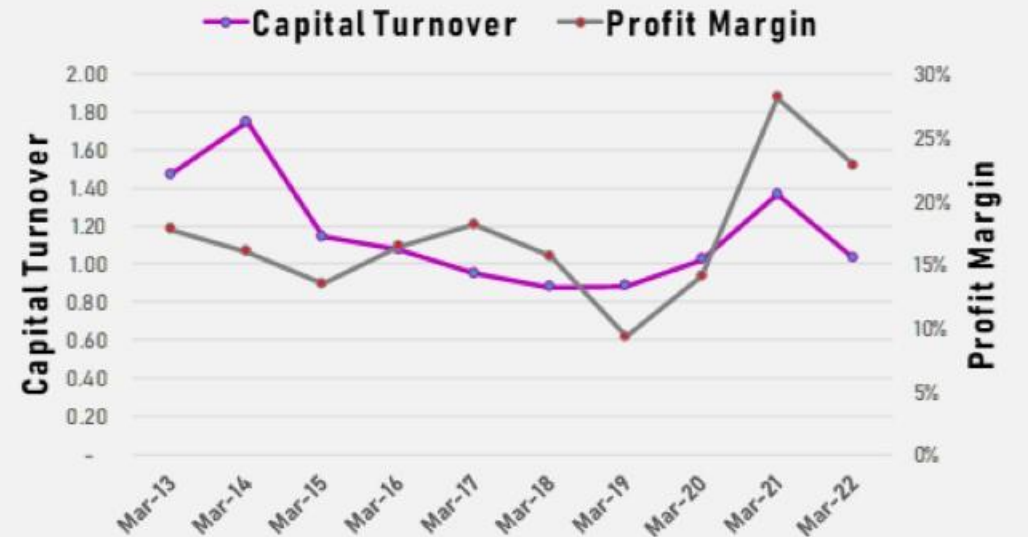
## Return on Capital Employed ROCE %



# ROCE - DuPont Analysis

$$\frac{EBIT}{Capital\ Employed} = \frac{EBIT}{Sales} * \frac{Sales}{Capital\ Employed}$$

- ✓ ROCE can also be thought of as a product of EBIT Margin and Capital Turnover
- ✓ EBIT Margin % = EBIT / Sales
- ✓ Capital Turnover = Sales / Capital Employed
- ✓ Capital Turnover spots how effectively a company is using its capital to produce sales
- ✓ DuPont ROCE tells us whether the ROCE is increasing because of EBIT Margin or Capital Turnover or both.



# Factors affecting Capital Turnover

## New Products Sale

New Brands and products boosting Sales.

## Capital Employed

A Reduction in Capital Invested could boost Capital Turnover.

## Working Capital

Lesser Inventory; Collecting Customer payments quickly; Paying Suppliers late.

## Reduction in New Assets

Company focuses on improving efficiency rather than creating new assets

## Getting Rid of old assets

Companies get rid of their underperforming assets that have low capital turnover or ROCE.



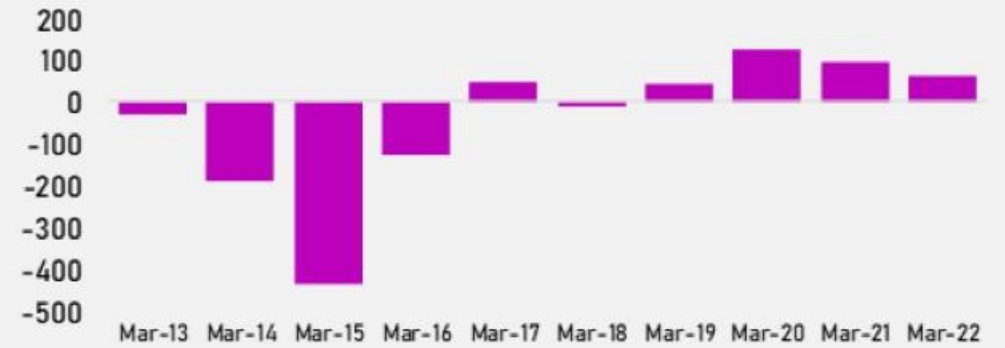
# Why ROCE is high for some Businesses?

- ✓ Some companies such as Hindustan Unilever have very high ROCE (More than 100%)
- ✓ Also, few retail store chains, airlines etc have high ROCE.
- ✓ One of the main reasons is that these companies are not owning the retail outlets. Rather, they have rented the retail outlet, or they operate on a franchise model or dealership model.
- ✓ If the stores are owned (asset side), it will create a parallel entry in the liability side of the balance sheet. The Capital Employed will shoot up and it will reduce the ROCE.
- ✓ Hence, don't get carried away by the high ROCE value.
- ✓ You should calculate an adjusted ROCE if sales from rented outlets is a significant part of the business.
- ✓ This is one of the reasons why Capital-Intensive Businesses have a low ROCE.

# FREE CASH FLOW ( FCF )

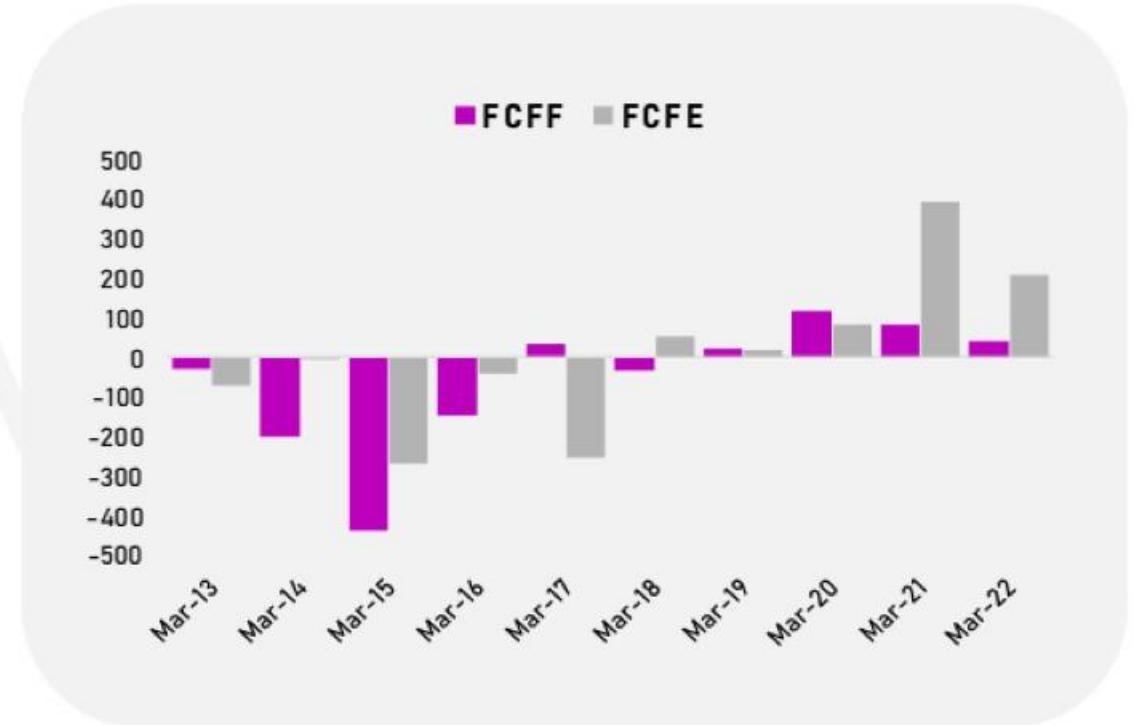
- ✓  $FCF = \text{Cash Flow from Operations} - \text{Capex}$
- ✓ The graph on the right shows the last 10-Years FCF
- ✓ Check if the FCF is growing year after year
- ✓ FCF growth is an indication of a very high-quality company
- ✓ FCF indicates that the business is profitable and that it is also converting its profits into operating cash flow.
- ✓ FCF also indicates that the business, after making the necessary CAPEX, still has money in hand to take further actions such as Dividends, Buybacks, Debt repayments, Acquisitions etc.

Free Cash Flow in ₹Cr



# FCF<sub>F</sub> & FCF<sub>E</sub>

- ✓ Free Cash Flow to the Firm and Equity
- ✓ The graph compares the Free Cash Flow available to the firm and the Free Cash Flow available to the Shareholders (Equity).
- ✓ If you are an investor, you want the FCFE and FCFF to be almost the same.
- ✓ Free Cash flow to Equity is calculated after subtracting interest and debt payments by the firm.
- ✓ If the gap between FCFF and FCFE is huge, it might be because of the debt burden.
- ✓ It is alright if the FCFE is lower than the FCFF in 1 or 2 years. But, if it is consistently below the FCFF by a big margin, then you should avoid such stocks.

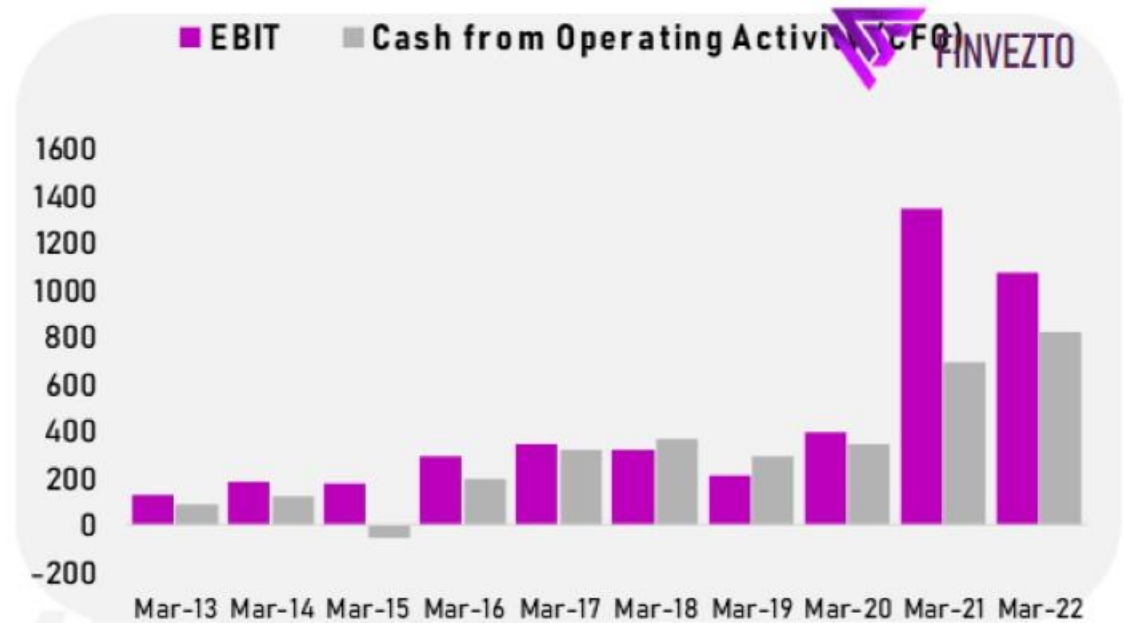


# Operating Cash Conversion

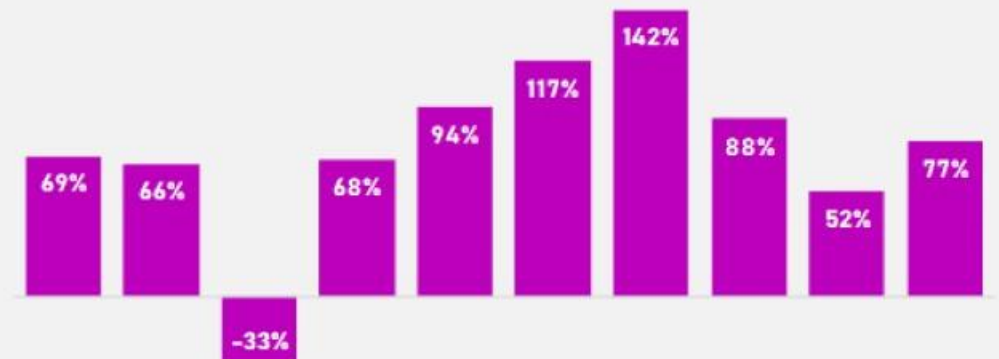
- ✓ We need to look for companies turning most of its operating profits (EBIT) into operating cash flow (CFO).
- ✓ Operating Cash Conversion =  $CFO / EBIT$
- ✓ Check if the average Operating Cash Conversion Ratio given below is at least above 50%

Average

72%



## Operating Cash Conversion

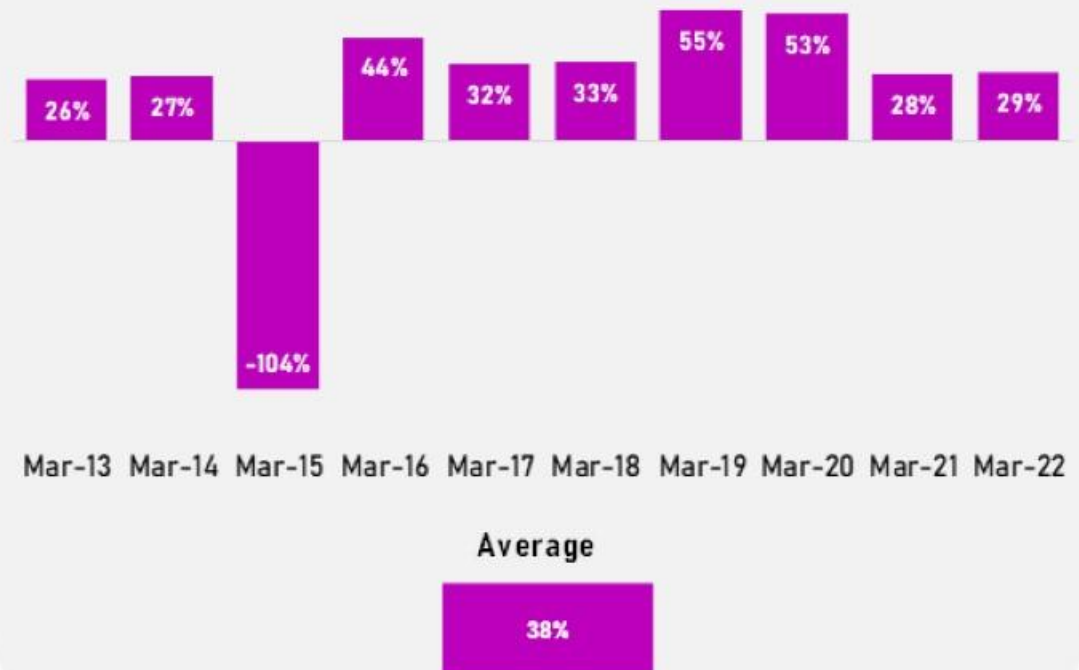


Mar-13 Mar-14 Mar-15 Mar-16 Mar-17 Mar-18 Mar-19 Mar-20 Mar-21 Mar-22

# Depreciation as a % of CFO

- ✓ Some Manufacturing Business inherently have high Operating Cash Conversion as depreciation is a part of CFO.
- ✓ While checking for companies with high Operating Cash Conversion, also check for companies with low Depreciation as a percentage of CFO.
- ✓ Typically, we look for companies with a Depreciation percentage of below 35%.
- ✓ The reason being that the company must spend the same amount (35%) from the Cash Flow towards maintenance of the depreciating assets.

## Depreciation as a % of CFO



# CAPEX Ratio (CAPEX/CFO)

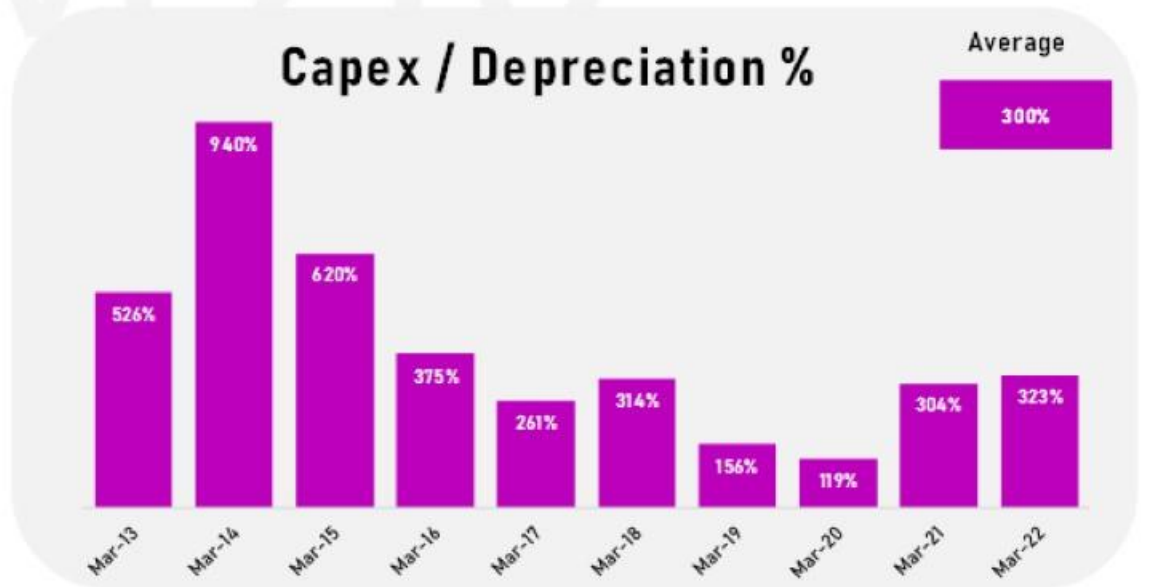
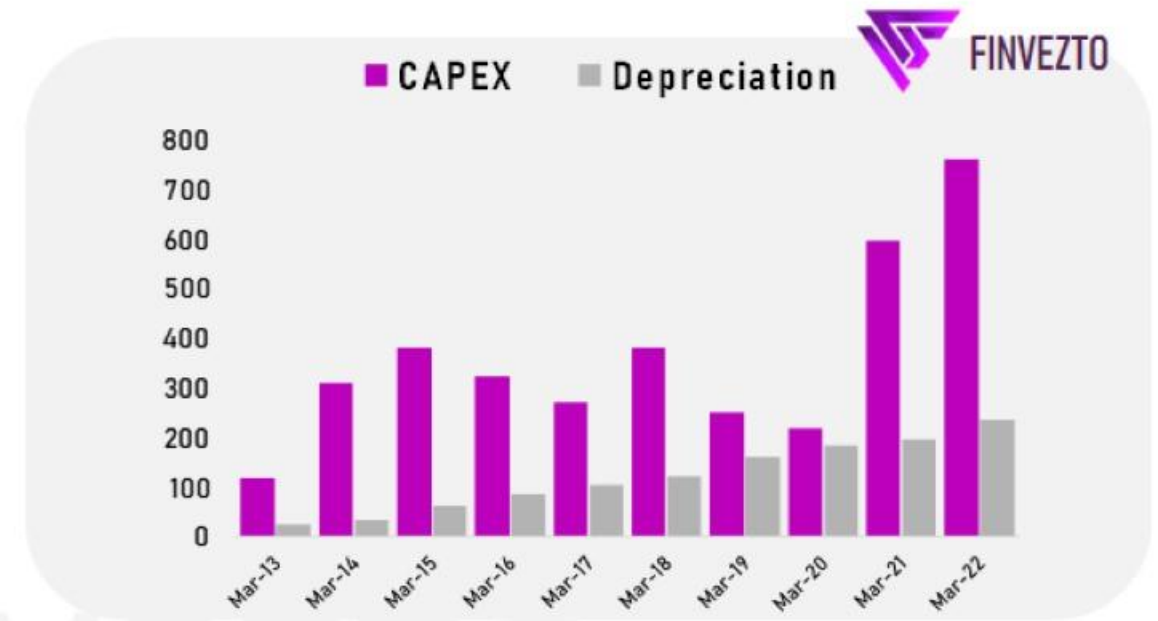
- ✓ We want businesses to grow without having the need to shell out Capex year after year.
- ✓ The graph shows the CAPEX ratio of the business over the past 10 years.
- ✓ It is an indication of how capital intensive the business is.
- ✓ If the average CAPEX ratio is above 50%, then the business is capital intensive.
- ✓ Companies allocating CAPEX year after year tend to have a lower ROCE.
- ✓ Typically, we look for companies with an average CAPEX ratio of less than 35%.

## Capex / CFO (Capex Ratio)



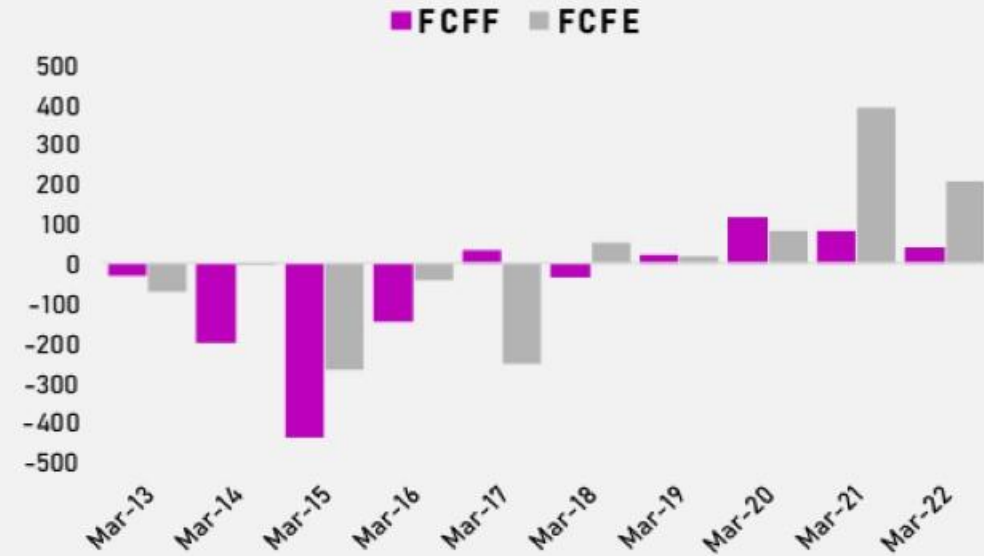
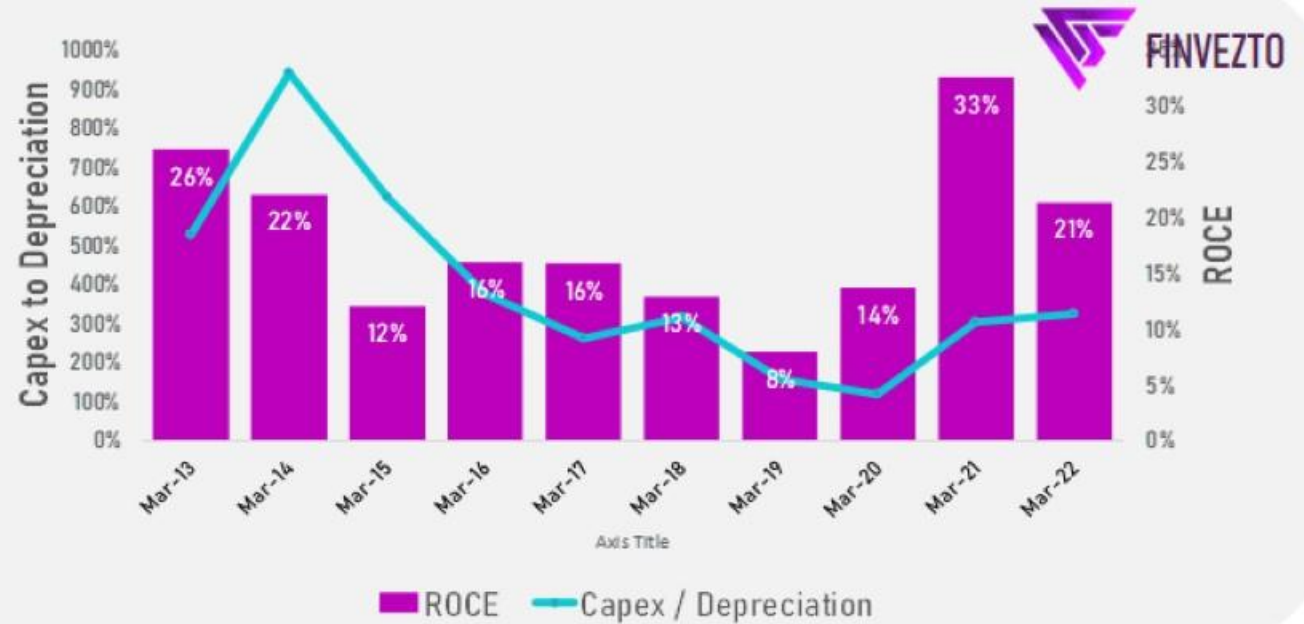
# Is the CAPEX enough?

- ✓ Check if the company is spending more on CAPEX than the depreciation and amortization of its assets
- ✓ If the CAPEX is too low, the company may not be able to sustain its cash flows in the future.
- ✓ If the CAPEX spend is more than the Depreciation, then the company is spending just enough to maintain its competitive advantage.
- ✓ Compare with other peer companies as well.
- ✓ Check how the CAPEX has changed during the economic downturns. If the company has cut CAPEX during testing times, then it might affect their future cash flows.
- ✓ Sometimes, in software-based companies, the CAPEX might be consistently lower than the Amortization expenses. Hence, CAPEX spend should be linked to the industry that you are evaluating.



# CAPEX vs ROCE vs FCF

- ✓ Sometimes the FCF might be negative for a few years. It could mean that the company is investing heavily in CAPEX.
- ✓ The CAPEX investment could bring in future cash flows.
- ✓ Hence, one should look at ROCE along with CAPEX and FCF.
- ✓ If the ROCE is stable or increasing as the CAPEX increases, we can expect future cash flows to increase.
- ✓ Check for Stable or Reducing Capex to Depreciation; Check for Increasing or Stable ROCE; Check for Increasing Cash Flow. If a company satisfies all 3 conditions above, it is of the highest quality.

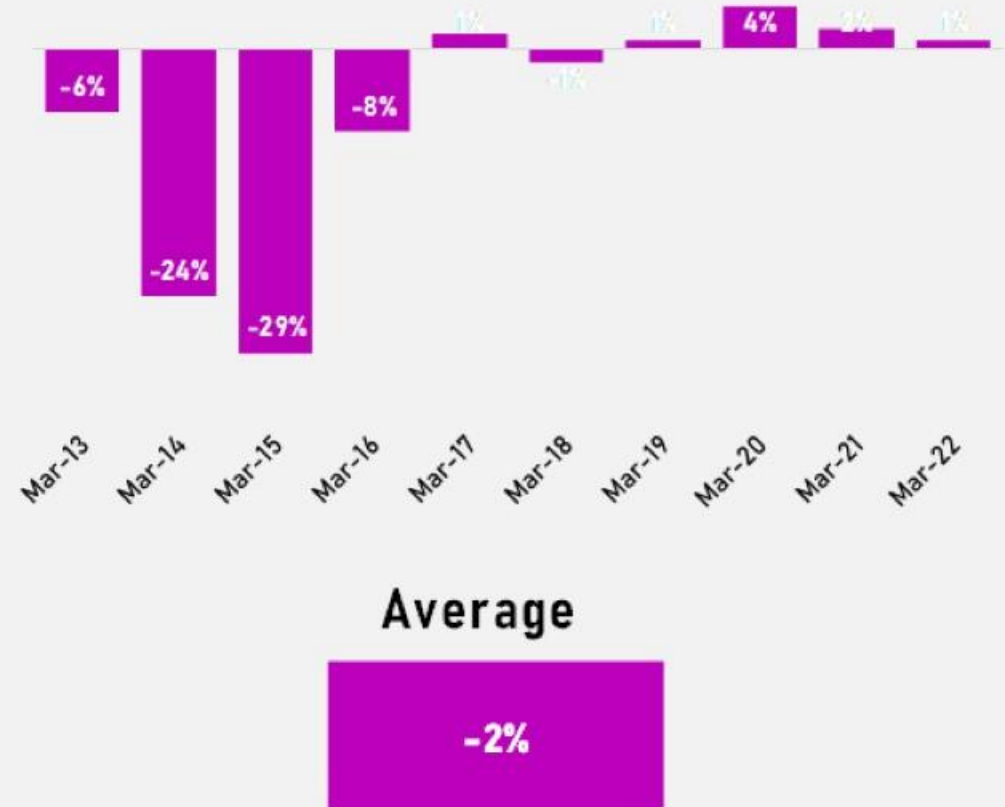




# CROCI

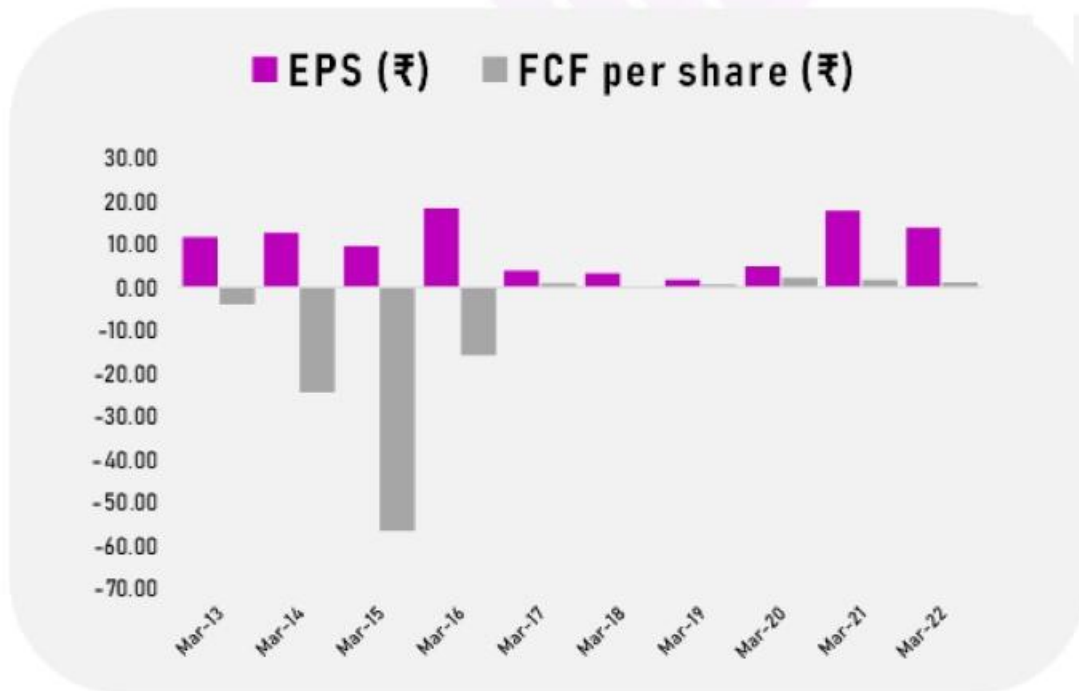
- ✓  $CROCI = FCFF / \text{Capital Employed}$
- ✓ This indicates the Free cash flow generated by the business on the capital employed or invested.
- ✓ The Average CROCI Value should preferably be greater than 8%
- ✓ CROCI should be consistent over the years.

$$CROCI = FCFF / \text{Capital Employed}$$

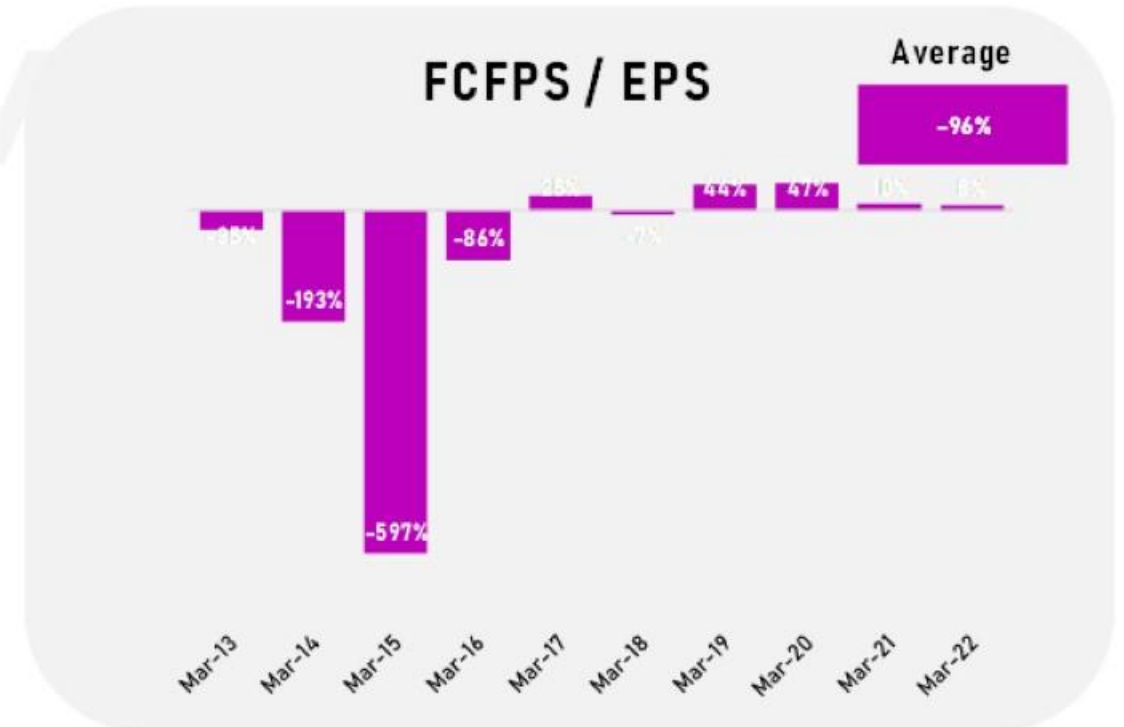


# FCF per share vs EPS

- ✓ Indicates Quality of Earnings and the cash left for the shareholders.
- ✓ Wise investors focus on FCFPS more than EPS.
- ✓ If FCF per share is significantly lower than EPS, then you should avoid the stock.



- ✓ If FCFPS percentage is below 25% or negative, avoid the stock.
- ✓ If FCFPS is above 75%, then add the stock to the watchlist blindly.
- ✓ If FCFPS is above 25% with ROCE rising, add to watchlist.



# If FCFPS is significantly lower than EPS...

## ✓ **Low Operating Cash Conversion**

Company might be struggling to convert the profits into free cash flow. The company might be selling more on credit. There could also be a lot of inventory stuck within the company.

## ✓ **High Capex to Depreciation**

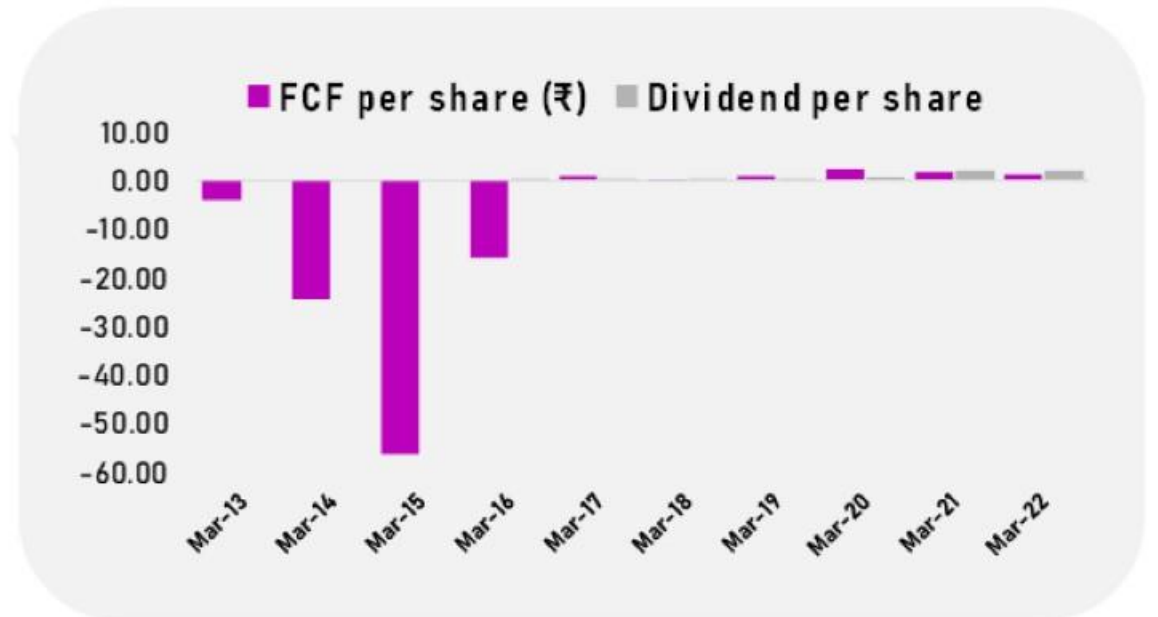
The company could be constantly investing in new assets to maintain their position in the market. You need to be doubtful about Companies which need to allocate CAPEX year after year consistently. If the company is allocating CAPEX, then you need to check for ROCE and the company's ability to generate Free Cash Flows in the future.

## ✓ **Profit Manipulation**

A significantly lower FCFPS could also mean that the company is manipulating its earnings to show a higher EPS.

# Will the company continue to pay Dividends?

- ✓ Compare FCF per share with Dividend per share.
- ✓ This will give you an idea of whether the company can continue to pay dividends to shareholders.
- ✓ The FCF per share needs to be consistently higher than the Dividend per share.



# Diving Deeper into Free Cash Flows

- ✓ When it comes to real estate companies, the FCF per share might be negative or consistently lower than Dividend per share. That is because of the nature of the business. Sale of Assets is not considered part of the cash flow from operations. Hence, the FCF might be low. You need to add the Sale of Assets back to the CFO to get a true measure of the FCFPS.
- ✓ Sometimes, what needs to be considered as CFO is often hidden inside Cash flow from Investing (CFI) Activities. Some companies, mainly education or consulting companies, grow through acquisitions. Acquisitions are accounted in CFI and not in CFO. It might seem like these companies are generating FCF to shareholders. But, in reality, they might be growing through acquisitions with lesser FCF to shareholders.

# Manipulating the Cash Flow

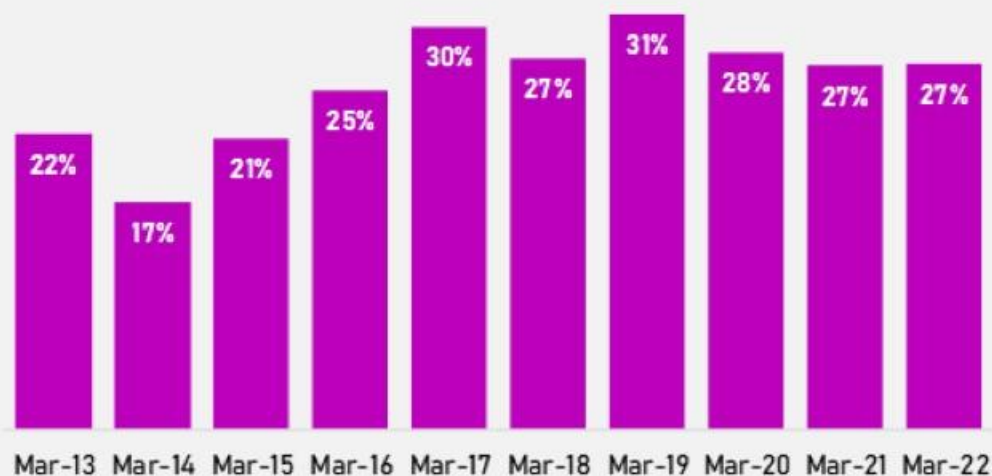
## Ignoring the Long Term

- ✓ Sometimes companies boost their Cash flows in the short term through certain actions.
- ✓ Delaying Payments to Suppliers is one way to boost cash flows. But, in the long term it brings down supplier loyalty.
- ✓ Reducing the CAPEX. It might not be needed in the short term, but the company might lose its edge in the long term if appropriate investments aren't made.
- ✓ Some Companies also grow through acquisitions (related and unrelated) rather than building their own assets or efficiencies. They show increased profits and cash flows in the short term. In the long term, very few acquisitions have proved to be create value for shareholders.

# Quality of Sales & Profits

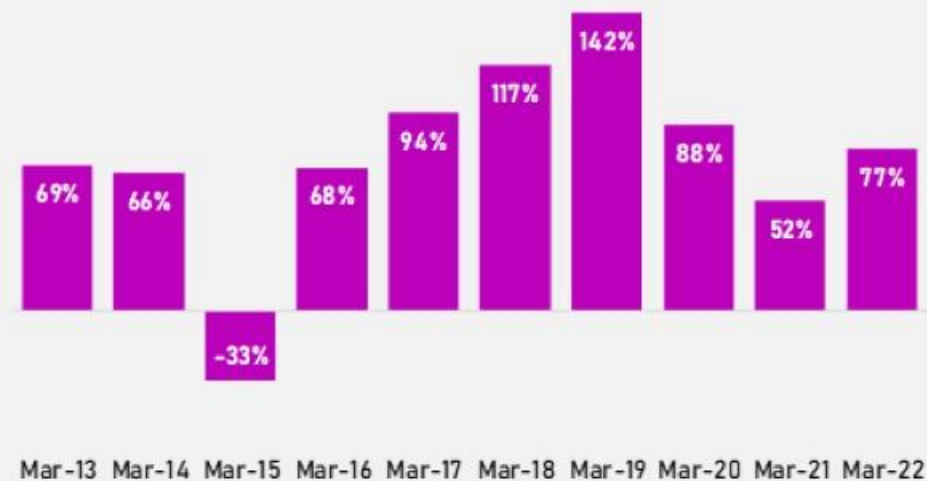
A Low, Falling or Stable Receivables to Revenue ratio indicates **High Quality Sales**

## Receivables / Revenue



A Rising or Stable Operating Cash Conversion (>75%) indicates **High Quality Profits**

## Operating Cash Conversion



# Working Capital Cycle and Cash Conversion

ACTIVITY, EFFICIENCY & WORKING CAPITAL RATIOS										
Net Working Capital	180.89	295.98	530.55	679.79	764.17	823.92	875.55	1067.51	1654.34	2108.85
Net Working Capital Turnover	3.97	3.92	2.50	2.61	2.48	2.46	2.55	2.62	2.88	2.23
Net Working Capital Days	92	93	146	140	147	148	143	139	127	164
Trade Receivable Days	80	61	78	91	108	100	112	102	98	98
Trade Receivable Turnover	4.59	5.95	4.65	4.00	3.37	3.65	3.26	3.60	3.73	3.71
Inventory Days	114	137	170	148	148	162	163	168	192	210
Inventory Turnover	3.20	2.66	2.15	2.46	2.47	2.26	2.24	2.18	1.90	1.74
Trade Payable Days	97	95	82	76	88	86	116	113	145	105
Trade Payable Turnover	3.78	3.85	4.44	4.78	4.14	4.24	3.13	3.22	2.52	3.47
Cash Conversion Cycle or Working Capital Cycle	97	104	166	163	168	175	158	156	145	203
Net Fixed Assets Turnover	3.05	2.33	1.66	1.75	1.59	1.40	1.40	1.65	2.62	2.15

- ✓ The lower the Cash Conversion cycle, the better. If the Cash conversion is negative, it is even better. It means that the business is making use of Supplier's Capital & Time to run the business.



# SUMMARY – Quality Checklist

- ✓ Consistent Increasing trend in Revenue, EBIT and Free Cash Flow over 5+ years
- ✓ Stable or Increasing EBIT Margin (>10%)
- ✓ Stable or Increasing ROCE (>10%)
- ✓ The FCF to Firm and Equity should be more or less equal
- ✓ Operating Cash Conversion should be at least 50%
- ✓ Depreciation Ratio and Capex Ratio should be less than 35%
- ✓ Check if the CAPEX is more than the Depreciation
- ✓ CROCI should be more than 8%
- ✓ FCF per share should be closer to the EPS
- ✓ Compare the Dividend per share with Free Cash flow per share to check the ability of the company to pay Dividends
- ✓ Low Cash Conversion Cycle

## 02. Safety Check

Let us evaluate if the company is safe or risky

# Safety - Dashboard

### D/CFO ( Debt to CFO)

<5



Mar-13 Mar-14 Mar-15 Mar-16 Mar-17 Mar-18 Mar-19 Mar-20 Mar-21 Mar-22

### D/FCF ( Debt to Free Cash Flow)

<10



Mar-13 Mar-14 Mar-15 Mar-16 Mar-17 Mar-18 Mar-19 Mar-20 Mar-21 Mar-22

### Interest Coverage Ratio

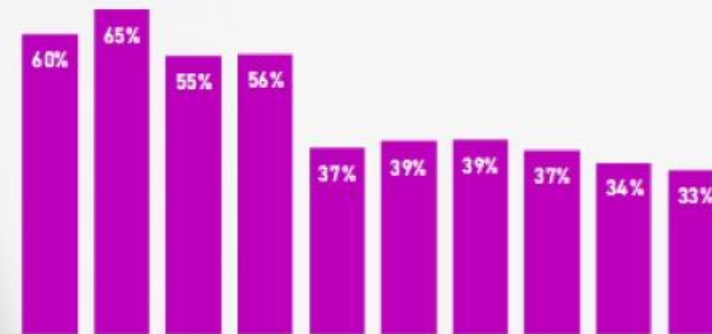
>5



Mar-13 Mar-14 Mar-15 Mar-16 Mar-17 Mar-18 Mar-19 Mar-20 Mar-21 Mar-22

### Debt to Assets

<50%

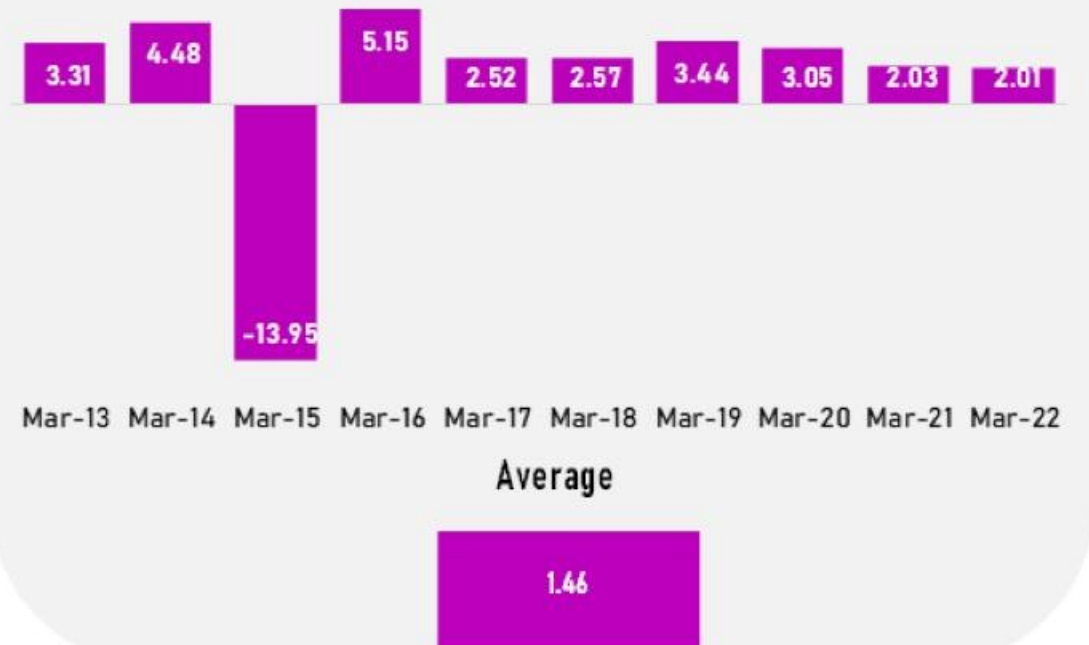


Mar-13 Mar-14 Mar-15 Mar-16 Mar-17 Mar-18 Mar-19 Mar-20 Mar-21 Mar-22

# Debt to CFO

- ✓ This indicates the number of years the company will take to repay its debt if it stops making any new investments.
- ✓ We would avoid companies which will take more than 5 Years to repay the loans with their CFO.
- ✓ In the graph on the right, check if the average Debt to CFO is less than 5.
- ✓ A falling trend is a good sign.
- ✓ If the CFO is negative, then the graph might show a negative value. It means the company is not generating free cash flow and still has some debt to pay off.

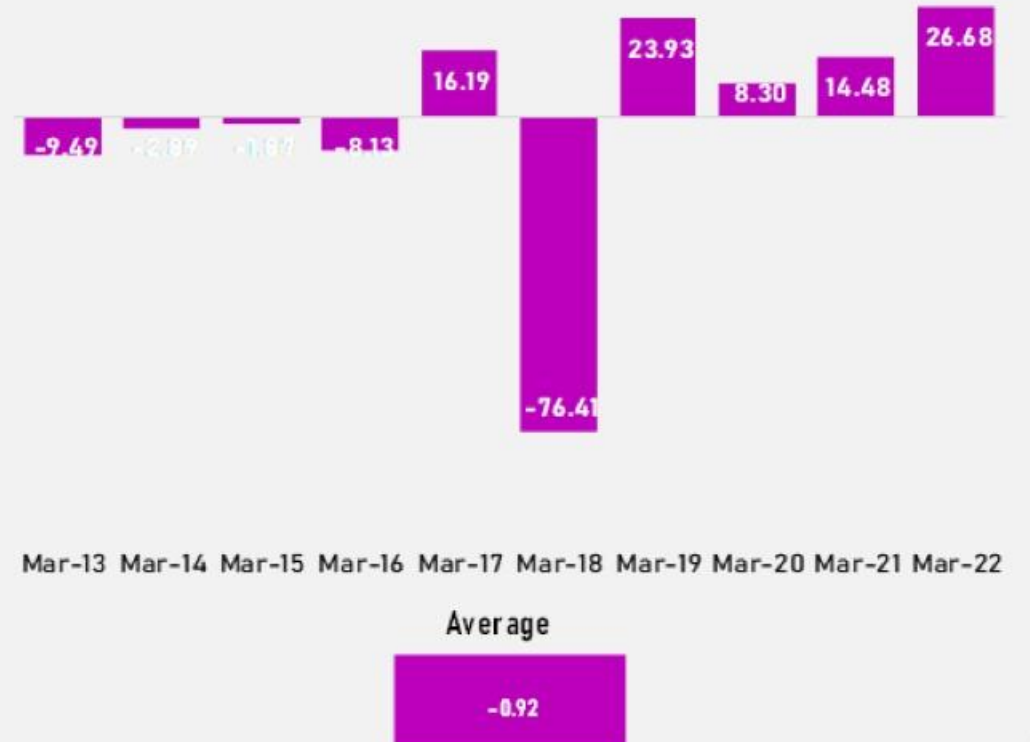
## D/CFO ( Debt to CFO)



# Debt to Free Cash Flow

- ✓ This indicates the number of years the company will take to repay its debt after making the required investments to stay competitive.
- ✓ We would avoid companies which will take more than 10 Years to repay the loans with their Free Cash Flow.
- ✓ In the graph on the right, check if the average Debt to CFO is less than 10.
- ✓ A falling trend is a good sign.
- ✓ If the FCF is negative, then the graph might show a negative value. It means the company is not generating free cash flow and still has some debt to pay off. In those cases, you might want to look at the average.

## D/FCF ( Debt to Free Cash Flow)



# Interest Coverage Ratio

- ✓ This indicates the company's ability to repay interest.
- ✓ Generally, we look for an average interest coverage ratio  $> 5$  to add the stock to the watchlist.
- ✓ For the stock to enter the portfolio, we look for an average interest coverage  $> 10$ .

## Interest Coverage Ratio



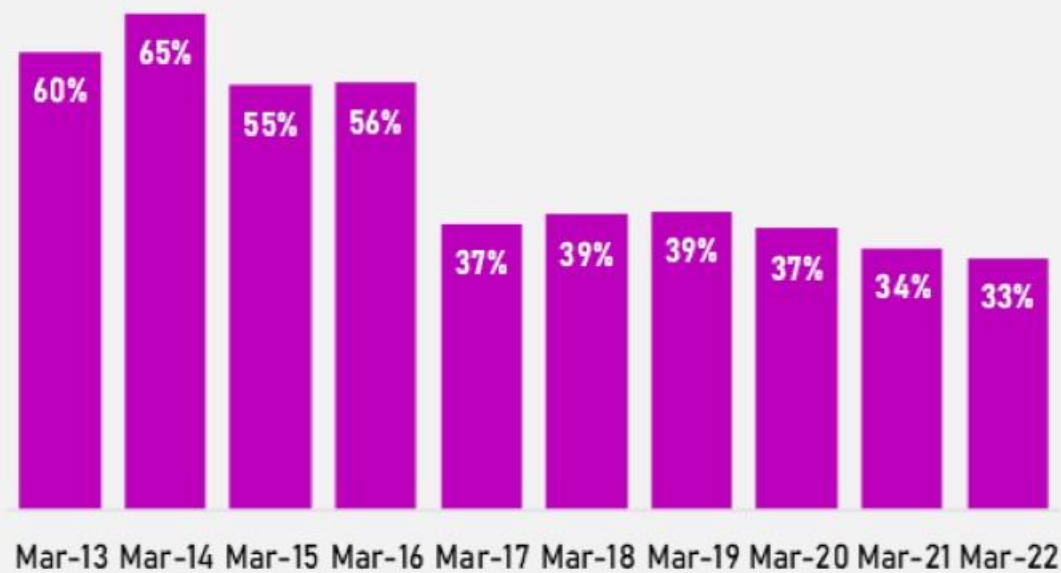
## Average

6

# Debt to Assets

- ✓ This indicates the % of assets that have been built through debt.
- ✓ We generally look for a Debt to Asset ratio of less than 50%.
- ✓ A Falling Trend is better.

## Debt to Assets



### Average

45%

# Red Flags – Areas of Suspicion

- Receivables Days; Receivables as a % of Revenue
- Low Tax Rate year after year; What is the Reason?
- Depreciation Rate Volatility; Aggressive accounting in Depreciation?
- Large cash outflows to Creditors = Creditors demanding faster payment = Power of Company Diluting
- Check if company needs High Capex Ratio year after year
- Check if there are any obligations that the company might have to fulfil in the coming years such as Contingent Liabilities, Employee Pension etc.
- Is Other Expenses a big chunk of expenses? Avoid such stocks.
- Goodwill and Intangibles as a % of Total Assets. If it is higher than 20%, avoid the stock.
- Is there any write off in Trade receivables and Equity Reserves? You can find it in the Auditor's report. Avoid such stocks.
- Check if Other Expenses is increasing as a percentage of Sales. Avoid.
- Check if the interest rates on debt are fixed or floating. We generally prefer fixed interest rate loans as it gives the management some level of certainty.
- Sales to Subsidiaries and Related Parties as a total % of Revenue; Avoid companies with too many related party transactions.
- Contingent Liabilities as a % of Book Value or Market Cap.
- Huge Cash lying in Current Account, Cheques, Foreign Banks etc.
- One time Income dominating the company Revenues consistently
- Check if the Accumulated Depreciation is inline with the Increase in Gross Block.
- Check if the company is having too much idle cash in bank.
- Check if the Employee cost and Sales per employee is on par with that of the industry.



# Red Flags Checklist

## LAURUS LABS LTD



### Red Flags List

	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Trend	Check
Revenue Change YoY%		61%	14%	34%	7%	7%	10%	25%	70%	-1%		Check for Consistency
COGS Change		79%	15%	13%	0%	5%	14%	31%	53%	-2%		Check if it is inline with Revenue Change
COGS/ Revenue	62%	69%	69%	58%	54%	53%	55%	58%	52%	52%		Check if it is inline with Revenue
Receivables Change		24%	46%	56%	27%	-1%	24%	13%	64%	-1%		Check if it is inline with Revenue Change
Payables Change		72%	1%	9%	19%	3%	55%	27%	92%	-27%		Sharp rise is bad. Leads to future cash outflows.
Inventory Change		110%	45%	2%	3%	15%	16%	34%	72%	10%		Rising inventory is bad. Possible inventory write-off in future.
Receivables / Revenue	22%	17%	21%	25%	30%	27%	31%	28%	27%	27%		Rising levels indicate poor sales quality.
Depreciation / Revenue	3%	3%	5%	5%	5%	6%	7%	7%	4%	5%		Volatility in depreciation % indicates aggressive accounting.
Dividend Payout %	0%	0%	0%	2%	8%	9%	17%	10%	11%	14%		Intention to reward shareholders.
Cash as a % of Total Assets	2%	2%	3%	1%	0%	0%	0%	0%	1%	1%		Decline in cash is bad.
Fixed Assets %	34%	39%	42%	45%	45%	48%	48%	45%	32%	33%		Sharp rise or fall is bad.
Self Sustainable Growth	45%	33%	11%	18%	14%	10%	5%	13%	31%	19%		Ability to grow with own reserves without taking any more Equity or Debt
Other Expenses %	0%	0%	0%	1%	0%	0%	1%	0%	0%	0%		Rising is bad.
Return on Cash & Investments	35%	37%	46%	8%	59%	54%	26%	8%	7%	5%		How much is the company earning from their Cash in Bank & Investments? Is it more than 4%?

VALUE

## 03. Value Check



# Why P/E Ratio is not a useful Valuation measure?

- ✓ EPS or Earnings Per Share is the denominator in P/E Ratio
- ✓ The Earnings and EPS of a company are subject to manipulations.
- ✓ A company can boost its earnings by aggressive accounting policies. For example, a manufacturing company might increase the life of its useful assets which will lead to a lower depreciation expense and eventually magnified profits.
- ✓ EPS of a company can also be increased through buyback of shares by the company. Sometimes, buybacks are performed even when the stock is expensively priced. That is a warning signal for investors.
- ✓ EPS also does not indicate the quality of profits earned unlike the Free Cash Flow per share.
- ✓ P/E Ratio can be used while doing peer comparisons. But, it does not help us arrive at the intrinsic valuation of a company.
- ✓ We will follow a different approach to value companies.

# Valuation – What we look at?

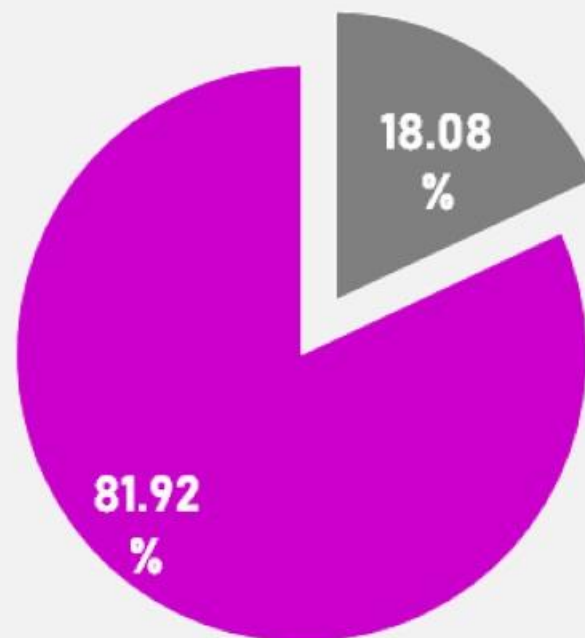
1. How much of the Future Growth is already accounted in the current market price?
2. What is the Intrinsic Value of the Stock?
3. What is the Intrinsic Value Growth Rate (Compounding Rate) of the Stock?
4. Margin of Safety
5. What is the Mind Value that other investors have associated with this stock?

Note: We have a different framework for Banks & Financial Services<sup>4</sup>.

# Future Growth % already discounted in Price

- ✓ We look at the price as 2 parts.
- ✓ One, which tells us how the market is valuing the current ability of the company to keep generating profits.
- ✓ Two, which tells us how the market is valuing the future growth prospects of the firm
- ✓ If the market values the future growth at more than 50% of the current stock price, we will avoid buying the stock. This means the stock must perform significantly well to provide good returns at the current price. However, the stock will remain in our watchlist.
- ✓ Future Growth % is indicated in Purple.

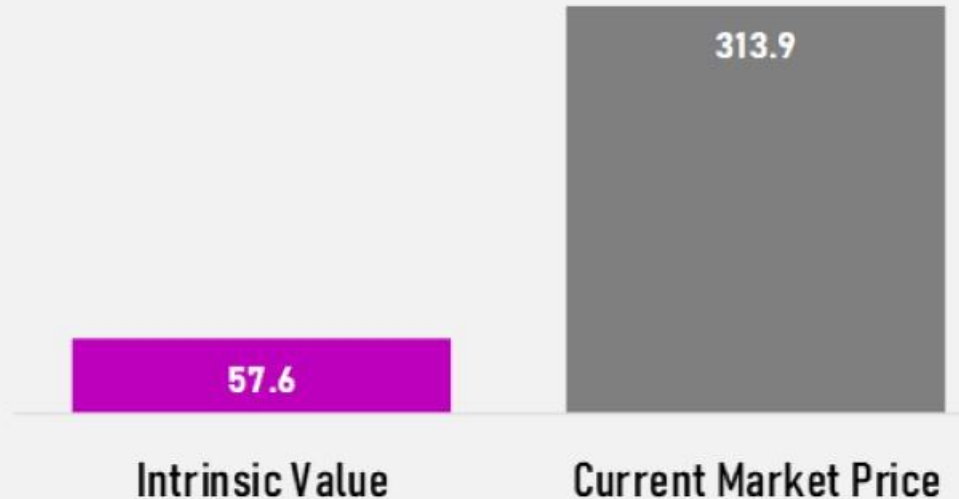
## Future Growth



# Intrinsic Value

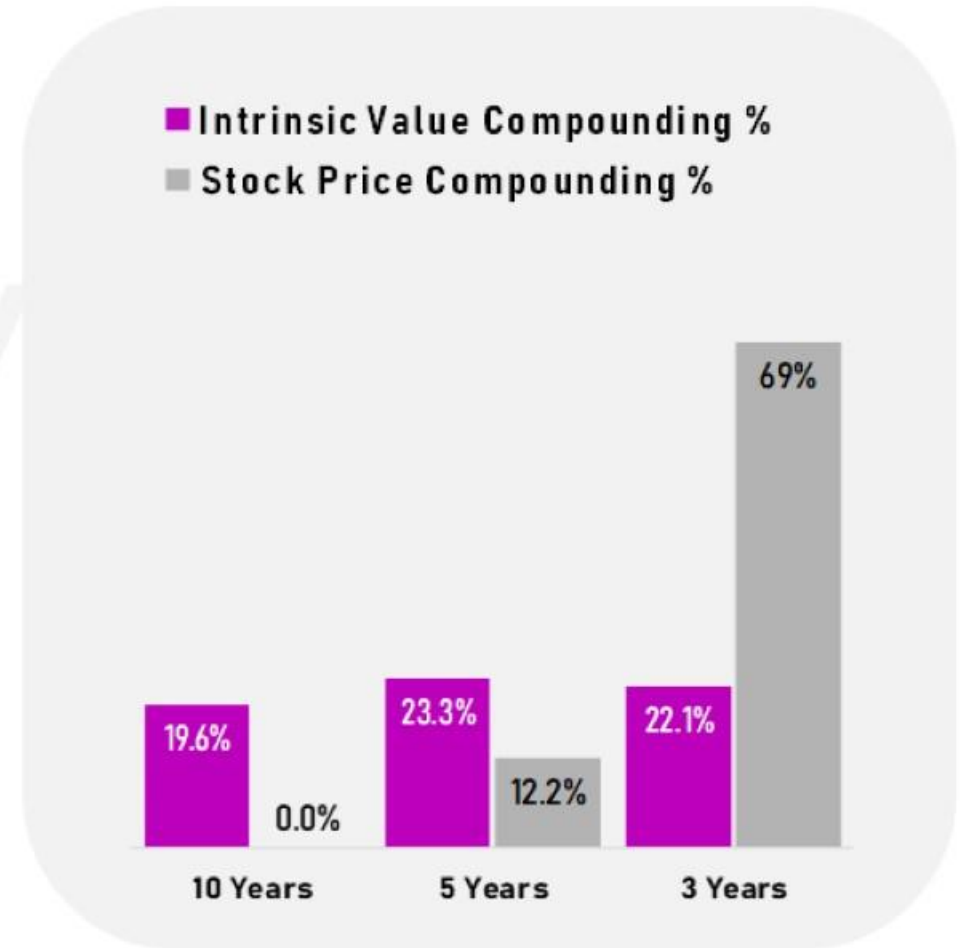
- ✓ The Intrinsic value is the computed fair value of the company arrived at after discounting all its future cash flows and growth.
- ✓ If the current price of the stock is below its intrinsic value, then the stock is undervalued.
- ✓ If the current price of the stock is higher than the intrinsic value, then the stock is overvalued.
- ✓ A discount rate of 9% is assumed while calculating Intrinsic Value.

## Intrinsic Value vs Market Price



# Intrinsic Value Compounding Rate

- ✓ The rate at which the company is growing its intrinsic value.
- ✓ We have observed that over the years, the share price growth is mostly higher than the Intrinsic Value growth rate of the Company.
- ✓ The market always gives a premium to companies which can compound their intrinsic value at attractive rates.



# Margin of Safety (MOS)

- ✓ Margin of Safety indicates the % difference between the Intrinsic Value and the Current market price.
- ✓ Ideally, you want the current market price below the intrinsic value.
- ✓ If the Price is above Intrinsic Value, then there is no margin of safety.
- ✓ If the Margin of Safety is 50%, it means the stock is trading 50% below the Intrinsic Value.

**Price is above Intrinsic Value**

Note: Please remember that the above is only a **Quantitative** definition of Margin of Safety. We prefer to look at it qualitatively as well. Companies with consistent growth and capable management have a **Qualitative Margin of Safety**. The consistency of companies indicate that the management can adapt to changes. They are either way ahead of the game or they have the luxury of time to react to external changes. Management might also be pardoned for some wrong decisions they have made over time. The nature of business itself ensures the management minimizes error in decision making. Even if management commits a mistake, it is not penalized heavily. This is how we look at Margin of Safety. That is why we have Quality and Safety as the first 2 checks and valuation as the 3<sup>rd</sup> check.



A background graphic consisting of a 3x3 grid of light purple, rounded rectangular blocks. Each block has a dark purple arrow pointing to the right. The text "Other Checks & Tests" is overlaid in white on the center of the grid.

# Other Checks & Tests

# Earnings Retention Test

## LAURUS LABS LTD

### Market Value Added - Earnings Retention Test

₹Cr	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Current
Retained Earnings	88	97	74	142	184	157	79	240	849	643	
Market Capitalization	0	0	0	0	5459	5331	4253	3473	19425	31712	16908

### One Rupee Test - Market Value Added for every 1 Rupee of Retained Earnings

	Earnings Retained	Change in Market Cap		Market Value added per Rupee of Retained Earnings
Last 10 Years	2552.55	16908.25	↑	6.62
Last 5 Years	1967.99	11577.0343	↑	5.88
Last 3 Years	1731.73	13435.4884	↑	7.76

- ✓ Earnings Retention Test checks if the company is adding ₹1 in Market Cap for every ₹1 of its Retained Earnings. If the number is more than 1 over the last 3 or 5 or 10 years, then it is good.

# Economic Value Added

Economic Value Added										
₹Cr	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
WACC (Cost of Capital) % Assumption	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
ROIC	27%	18%	12%	13%	13%	9%	6%	12%	24%	16%
Capital Employed	488.92	838.78	1481.76	1820.27	2163.11	2460.75	2600.22	2867.1	4123.5	5041.31
Cost of Capital (₹Cr)	58.67	100.65	177.81	218.43	259.57	295.29	312.03	344.05	494.82	604.96
NOPAT	130.39	148.66	181.97	234.11	279.10	227.36	162.26	343.98	1005.56	823.81
Economic Value Added = NOPAT - Cost of Capital	71.72	48.01	4.16	15.67	19.52	-67.93	-149.76	-0.07	510.74	218.85
ROIC - WACC	↑ 15%	↑ 6%	→ 0%	→ 1%	→ 1%	↓ -3%	↓ -6%	↓ 0%	↑ 12%	↑ 4%

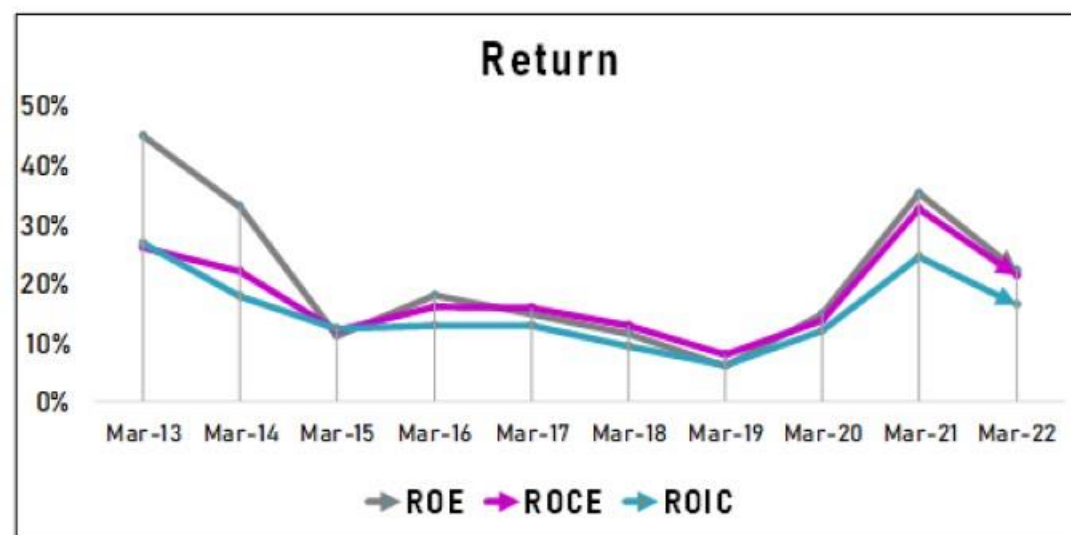
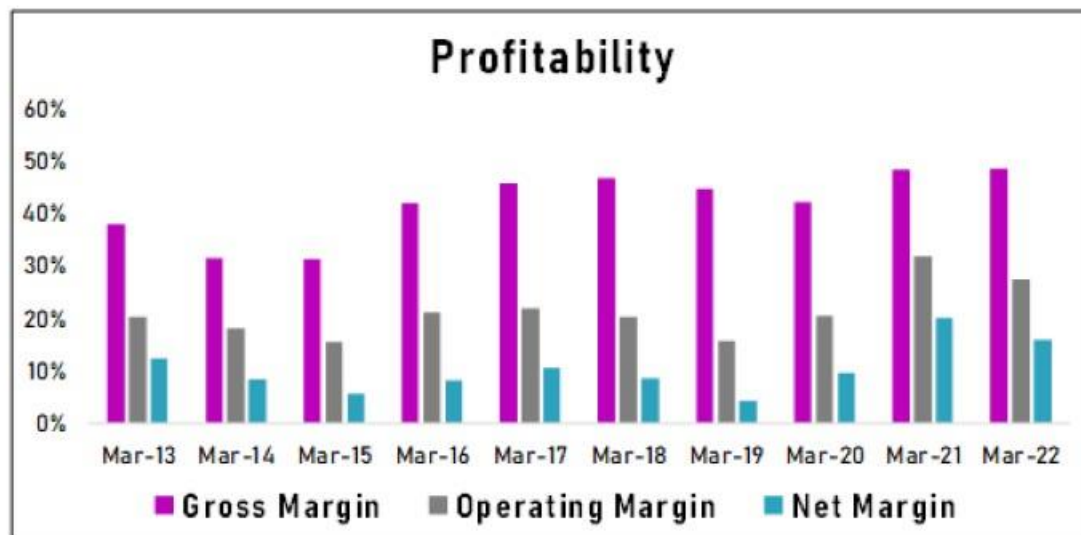
- ✓ Economic Value Added checks if the company is making more returns than the Cost of Capital. If the Economic Value Added is positive and increasing over the years, it is a good sign.

# Pricing Power Assessment

## LAURUS LABS LTD

### COMPETITIVE EDGE - Margin Protection & Pricing Power

Profitability	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Gross Margin	38%	31%	31%	42%	46%	47%	45%	42%	48%	48%
Operating Margin	20%	18%	15%	21%	22%	20%	16%	20%	32%	27%
Net Margin	12%	8%	6%	8%	11%	9%	4%	10%	20%	16%
Return	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
ROE	45%	33%	11%	18%	15%	11%	6%	15%	35%	22%
ROCE	26%	22%	12%	16%	16%	13%	8%	14%	33%	21%
ROIC	27%	18%	12%	13%	13%	9%	6%	12%	24%	16%



Note : In the previous pricing power assessment slide, check if the company has been able to maintain its margins above 15% over the years while maintaining its ROE, ROCE & ROIC above 15%. If it holds true, then the company might have a strong pricing power & competitive advantage. Identify what it is from the Annual Report. It could be brand, distribution network, switching costs, network effects etc.

# DuPont Analysis

# DuPont Return on Equity

Du Pont Analysis										
Financial Year	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
ROE (Return on Equity) DuPont	45%	33%	11%	18%	15%	11%	6%	15%	35%	22%
Net Profit Margin	12%	8%	6%	8%	11%	9%	4%	10%	20%	16%
x Asset Turnover Ratio	1.02	0.91	0.70	0.80	0.71	0.67	0.67	0.75	0.85	0.71
x Financial Leverage	3.56	4.30	2.86	2.77	1.97	1.99	2.09	2.06	2.07	1.95

- ✓ DuPont Return on Equity is a product of Net Profit Margin, Asset Turnover Ratio and Financial Leverage of the company.
- ✓ The strength of the purple color indicates which out of the 3 factors has contributed most to the ROE over the years.



# Financial Statements



# P&L Statement

## P&L Statement



(₹Cr)	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	TTM
<b>Revenue</b>	718.51	1159.72	1326.32	1774.64	1891.93	2026.84	2236.15	2797.34	4768.72	4707.04	5,871.77
<b>Revenue Change %</b>		61%	14%	34%	7%	7%	10%	25%	70%	-1%	
<b>Expenses</b>	573	951	1121	1402	1478	1618	1884	2226	3258	3421	4,269.54
Cost of Goods Sold	445	796	913	1029	1029	1082	1238	1621	2472	2427	
Power and Fuel Cost	28	35	50	57	64	91	106	133	150	189	
Employee Cost	76	105	129	170	196	238	270	324	402	445	
Selling & General Expenses	30	38	52	48	71	98	132	166	224	238	
Other Expenses	27	47	62	123	155	135	168	201	308	341	
<b>Gross Profit</b>	273	364	414	745	863	945	998	1177	2297	2280	
<b>Gross Profit Margin</b>	38%	31%	31%	42%	46%	47%	45%	42%	48%	48%	
<b>Operating Profit</b>	145	209	205	372	414	409	352	571	1511	1286	1602
<b>Operating Profit Margin</b>	20%	18%	15%	21%	22%	20%	16%	20%	32%	27%	27%
Other Income	5	9	34	4	32	28	15	5	26	20	12
Depreciation	23	33	61	86	104	121	161	184	197	235	281
<b>EBITDA</b>	150	218	239	376	446	438	368	576	1537	1307	1615
<b>EBITDA Margin %</b>	21%	19%	18%	21%	24%	22%	16%	21%	32%	28%	27%
<b>EBIT</b>	127	185	178	291	342	316	207	392	1341	1071	1334
<b>EBIT Margin %</b>	18%	16%	13%	16%	18%	16%	9%	14%	28%	23%	23%
Interest	41	64	106	111	97	75	86	88	66	96	134
<b>Profit Before Tax (PBT)</b>	86	121	72	180	245	241	121	304	1275	975	1200
Tax	-2	24	-2	35	45	68	26	37	319	225	320
Tax Rate	-2%	20%	-2%	19%	18%	28%	22%	12%	25%	23%	27%
<b>Net Profit</b>	88	97	74	145	200	173	95	267	956	750	879
<b>Net Profit Margin</b>	12%	8%	6%	8%	11%	9%	4%	10%	20%	16%	15%

# Common Size P&L

LAURUS LABS LTD										
Common Size P&L										
(₹Cr)	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Raw Material Cost	62%	69%	69%	58%	54%	53%	55%	58%	52%	52%
Power and Fuel	4%	3%	4%	3%	3%	4%	5%	5%	3%	4%
Other Mfg Expenses	4%	4%	4%	6%	8%	6%	7%	7%	6%	7%
Employee Cost	11%	9%	10%	10%	10%	12%	12%	12%	8%	9%
SGA Expenses	4%	3%	4%	3%	4%	5%	6%	6%	5%	5%
Other Expenses	0%	0%	0%	1%	0%	0%	1%	0%	0%	0%
Operating Profit	20%	18%	15%	21%	22%	20%	16%	20%	32%	27%
Other Income	1%	1%	3%	0%	2%	1%	1%	0%	1%	0%
Depreciation	3%	3%	5%	5%	5%	6%	7%	7%	4%	5%
Interest	6%	6%	8%	6%	5%	4%	4%	3%	1%	2%
Profit Before Tax	12%	10%	5%	10%	13%	12%	5%	11%	27%	21%
Tax	0%	2%	0%	2%	2%	3%	1%	1%	7%	5%
Net Profit	12%	8%	6%	8%	11%	9%	4%	10%	20%	16%

# LAURUS LABS LTD



## BALANCE SHEET

(₹Cr)	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
<b>Equity Share Capital</b>	15	15	16	16	106	106	106	107	107	107
<b>Reserves</b>	182	281	645	790	1,250	1,407	1,484	1,709	2,605	3,281
<b>Borrowings</b>	292	543	821	1,015	808	947	1,009	1,051	1,411	1,653
<b>Other Liabilities</b>	212	434	411	409	509	547	718	872	1,502	1,567
Trade Payables	132	227	230	251	299	307	477	604	1,159	849
<b>Total Liabilities</b>	<b>701</b>	<b>1273</b>	<b>1893</b>	<b>2229</b>	<b>2673</b>	<b>3008</b>	<b>3318</b>	<b>3739</b>	<b>5625</b>	<b>6609</b>
<b>Net Fixed Assets</b>	236	499	801	1014	1193	1448	1599	1694	1818	2186
<b>Capital Work in Progress</b>	73	116	107	70	143	163	107	67	324	755
<b>Investments</b>	0	0	19	26	51	52	58	58	319	362
<b>Other Assets</b>	393	658	966	1119	1286	1345	1554	1920	3164	3306
Inventory	156	328	476	487	501	576	666	893	1534	1689
Trade Receivables	157	195	285	444	562	555	687	778	1280	1269
Cash Equivalents	14	23	56	25	2	1	1	1	39	41
<b>Total Assets</b>	<b>701</b>	<b>1273</b>	<b>1893</b>	<b>2229</b>	<b>2673</b>	<b>3008</b>	<b>3318</b>	<b>3739</b>	<b>5625</b>	<b>6609</b>
<b>Working Capital</b>	181	224	555	711	776	798	836	1,048	1,662	1,738
<b>Trade Receivables</b>	157	195	285	444	562	555	687	778	1,280	1,269
<b>Inventory</b>	156	328	476	487	501	576	666	893	1,534	1,689

Balance Sheet

# Common Size Balance Sheet

<b>LAURUS LABS LTD</b>										
<b>Common Size Balance Sheet</b>										
(₹Cr)	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Equity Share Capital	2%	1%	1%	1%	4%	4%	3%	3%	2%	2%
Reserves	26%	22%	34%	35%	47%	47%	45%	46%	46%	50%
Borrowings	42%	43%	43%	46%	30%	32%	30%	28%	25%	25%
Other Liabilities	30%	34%	22%	18%	19%	18%	22%	23%	27%	24%
<b>Total Liabilities</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Net Fixed Assets	34%	39%	42%	45%	45%	48%	48%	45%	32%	33%
Capital Work in Progress	10%	9%	6%	3%	5%	5%	3%	2%	6%	11%
Investments	0%	0%	1%	1%	2%	2%	2%	2%	6%	5%
Other Assets	56%	52%	51%	50%	48%	45%	47%	51%	56%	50%
<b>Total Assets</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>(As % of Total Assets)</b>										
Receivables	22%	15%	15%	20%	21%	18%	21%	21%	23%	19%
Inventory	22%	26%	25%	22%	19%	19%	20%	24%	27%	26%
Cash & Bank	2%	2%	3%	1%	0%	0%	0%	0%	1%	1%

# Cash Flow Statement

## LAURUS LABS LTD CASH FLOW STATEMENT

₹Cr	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Cash from Operating Activity (CFO)	88	121	-59	197	321	369	293	345	694	823
Cash from Investing Activity (CFI)	-124	-312	-406	-315	-282	-417	-257	-217	-900	-837
Cash from Financing Activity (CFF)	34	203	486	90	-47	49	-37	-127	243	15
Net Cash Flow	-1.68	12.3	21.24	-27.25	-8.21	0.12	-0.35	0.37	37.9	1.55
CAPEX	119	309	380	322	271	381	251	218	597	761
Free Cash Flow	-31	-188	-439	-125	50	-12	42	127	97	62
Capex / CFO (Capex Ratio)	135%	255%	-646%	163%	84%	103%	86%	63%	86%	92%
Average Capex Ratio	113%	113%	113%	113%	113%	113%	113%	113%	113%	113%
Interest Expense	41	64	106	111	97	75	86	88	66	96
Tax Rate	-2%	20%	-2%	19%	18%	28%	22%	12%	25%	23%
Tax Benefit from Interest	-1.01	12.51	-2.29	21.58	17.83	21.22	18.57	10.78	16.47	22.14
FCF <sub>F</sub>	-30	-200	-437	-146	32	-34	24	116	81	40
- Interest	41.16	63.95	106.16	111.04	96.97	75.44	85.83	87.71	65.92	95.86
+ Tax Benefit from Interest	-1.01	12.51	-2.29	21.58	17.83	21.22	18.57	10.78	16.47	22.14
- Debt Repaid		0.00	0.00	0.00	206.98	0.00	0.00	0.00	0.00	0.00
+ New Debt Taken		250.74	278.29	193.40	0.00	139.92	61.87	41.98	359.96	241.84
FCF <sub>E</sub>	-72	-1	-267	-42	-254	52	18	81	391	208

# Quarterly Results – Last 10 Quarters

## LAURUS LABS LTD Recent 10 Quarters Results

₹Cr	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Revenue	1,127.30	1,272.27	1,398.74	1,220.60	1,176.20	932.58	1,377.66	1,495.25	1,498.16	1,500.70
Revenue Change QoQ%		13%	10%	-13%	-4%	-21%	48%	9%	0%	0%
Revenue Change YoY%					4%	-27%	-2%	23%	27%	61%
Expenses	759.23	857.50	936.29	857.54	842.39	717.16	1,004.75	1,077.07	1,072.12	1,115.60
Operating Profit	368.07	414.77	462.45	363.06	333.81	215.42	372.91	418.18	426.04	385.10
Operating Profit Margin	33%	33%	33%	30%	28%	23%	27%	28%	28%	26%
Other Income	6.58	8.54	5.72	7.57	4.50	7.19	2.29	2.93	4.10	2.98
EBITDA	374.65	423.31	468.17	370.63	338.31	222.61	375.20	421.11	430.14	388.08
Depreciation	48.79	49.46	50.73	55.49	59.33	59.72	60.94	66.00	75.55	78.48
EBIT	325.86	373.85	417.44	315.14	278.98	162.89	314.26	355.11	354.59	309.60
Interest	13.37	16.93	21.06	25.04	20.59	20.94	29.29	27.50	37.91	39.26
Profit before tax	312.49	356.92	396.38	290.10	258.39	141.95	284.97	327.61	316.68	270.34
Tax	74.90	89.96	103.60	68.02	60.76	32.79	63.75	96.00	89.24	71.29
Net Profit	237.59	266.96	292.78	222.08	197.63	109.16	221.22	231.61	227.44	199.05
Net Profit Margin	21%	21%	21%	18%	17%	12%	16%	15%	15%	13%

**That's All Folks!**