

Laurus Labs Ltd

Analyst Recommendation: Buy

BSE Code: 54022

NSE: LAURUSLABS

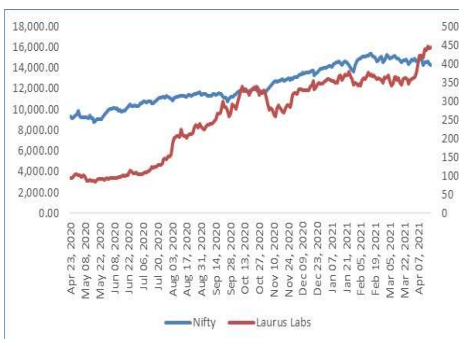
Reuters Code: LAUL.NS

Bloomberg Code: LAURUS:Natl

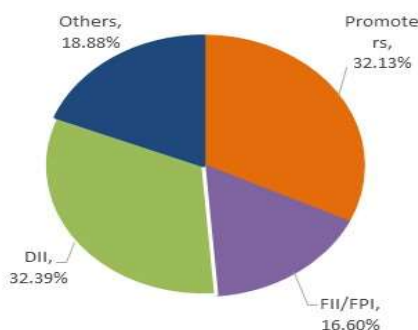
CMP: Rs 443
3 Year Target: Rs 610

Face Value	2.0
Market Cap (Rs cr)	23,785
52 week high/low	452/78
Beta	0.55
Shares O/S (Cr)	53.66
Book Value per Share (Rs)	33.91
Sensex	47,705.8
Nifty	14,296.4

1 yr. Price Chart of Stock and Nifty



Shareholding pattern as on 31st Dec 2020.



Investor's Rationale

➤ Formulations to be main growth engine:

Leveraging on strong backward integration, Laurus has demonstrated commendable execution capability in this segment growing 165x from | 5 crore to | 825 crore in FY18-20 with majority growth stemming from tender driven opportunities via participation in Global fund, PEPFAR and various incountry African tenders. In order to supplement future growth, capex plans are already under way to increase capacity by 1.8x by H2FY22E. Laurus is also developing a robust generic pipeline for the developed markets. It has entered into a partnership with a European generic player for contract manufacturing. In order to scale up this segment and cater to other players, the company plans to double the capacity to 2 billion units per annum over the next 18 months. We expect formulation revenues to grow at 40% CAGR in FY20-23E to | 2258 crore.

➤ Ramp-up in other generic API to drive steady API growth:

Growth in API has resumed with launch of first-line products – 3TC (Lamivudine) and DTG (Dolutegravir) and will be supported by launch of second line APIs such as Lopinavir and Ritonavir in H2FY21. Steady growth in oncology API, being a high margin-low volume segment, is expected to drive margins, supported by one of the largest high-potent API capabilities in India. Other APIs (anti-diabetic, CNS and PPI) are expected to be key growth drivers due to a robust order book and large capacity addition by end of FY21. APIs are also a prime beneficiary of China substitute play. We expect API revenues to grow at ~27% FY20-23E CAGR to ~| 3351 crore.

➤ Valuation

Besides continuous improvement in the financial performances, the company is evolving as a strong vertically integrated player with strong order book visibility, improving margin profile, strengthening return ratios and healthy FCF generation. We maintain BUY rating with a target price of Rs 610 based on 25x of FY23E EPS of 24.4

	FY20	FY21	FY22E	FY23E
Revenue (Rs.Cr)	2,831.7	4,672.7	5,625.6	6,248.5
EBITDA (Rs. cr)	561.0	1,504.1	1,786.1	1,999.5
Adj. profit (Rs.Cr)	255.3	959.8	1,130.9	1,307.8
Adj. EPS (Rs.)	4.8	17.9	21.1	24.4
P/E (x)	72.0	19.2	16.3	14.1
EV/Net Sales	6.9	4.2	3.4	2.9
EV/EBITDA (x)	34.7	13.0	10.8	9.2
ROE (%)	14.4%	36.4%	31.0%	27.1%
ROIC (%)	13.0%	33.8%	31.6%	30.4%

Formulations segment on a strong footing backed by sturdy growth and capacity expansion

- Laurus is witnessing improved traction for its formulations segment and the company expects the H2FY21 to be better than H1FY2021. The tender business accounts for around three-fourths of the total formulations segment sales and has robust growth outlook backed by a sturdy demand of ARV's. With strong demand, the management anticipates capacity constraints going ahead. Consequently, it is expanding capacities, primarily through brownfield expansion. The first leg of de-bottlenecking is expected to be over by end of Q4FY2021, while the second leg of expansion would be done in two phases, which would go on stream by September 2021 and December 2021. Cumulatively, the formulations capacity would increase by 80% over the next two years. Laurus is eyeing a revenue potential of 1.5-2x from the new capacities. Moreover, traction from North America and EU is expected to sustain going ahead and would aid topline growth.

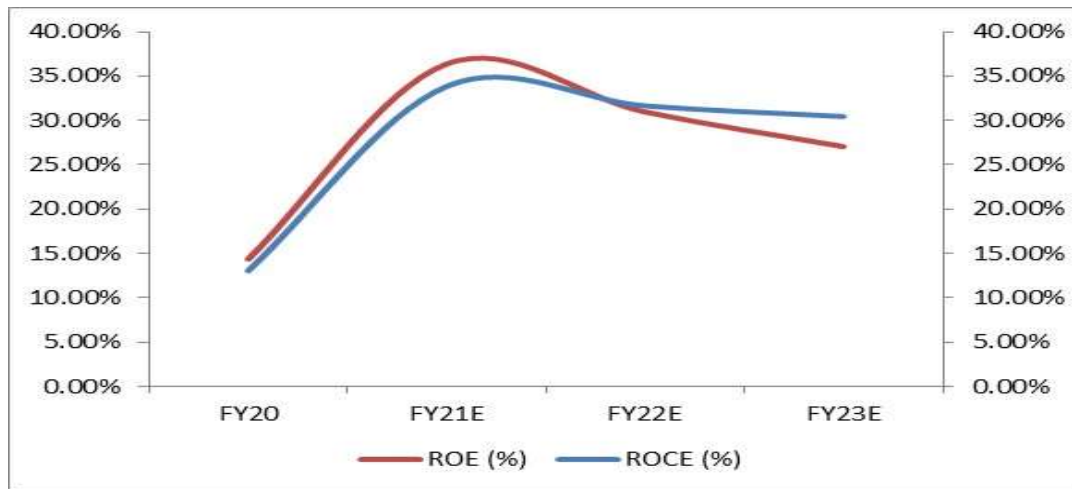
Custom synthesis business to clock double-digit growth:

- Laurus's custom synthesis business is witnessing an improved traction backed by sturdy client wins done by the company. For H1FY2021, segmental revenues were up ~37% y-o-y and traction is expected to sustain going ahead as well. However there are capacity constraints emerging for the segment, and the company is in the process for expanding capacities, so as to support growth. However given the commencement of commercial supplies of four products in H1FY2021, would aid the revenue growth for custom synthesis segment for FY2021. Going ahead with expanded capacities coming on-stream during FY2022 and an increase in commencement of commercial supplies, would drive growth for the custom synthesis business. The segment's sales are expected to clock a 19% CAGR over FY2020 to FY2023.

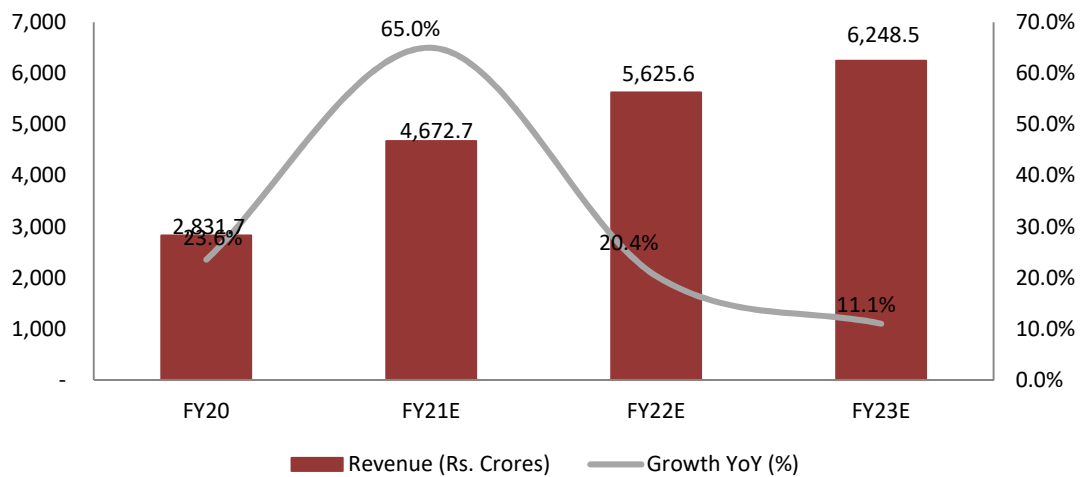
Capex to drive Richcore's topline FY2022 onwards:

- Laurus' acquisition of Richcore Lifesciences Private Limited (RLPL) is expected to yield substantial synergies going ahead and is expected to complement the company's aggressive growth strategies. RLPL operates through three distinct revenue streams – Biotech, Enzymes, and CDMO, among which its revenues are equally split. Going ahead, this is expected to change with the CDMO segment likely to be a major contributor to growth as chunk of the incremental capacities are towards this business. As of September 2020, RLPL had one plant with a capacity of 17500 litres operational and it is in the process of setting up another plant with a capacity of 1.8 lakh litres that is likely to be ready by the end of FY2021. New capacities are unlikely to require any major compliance approvals and are already pre-booked by existing clients. RLPL's CDMO capacity caters to the requirement of the clients largely in exports markets (US and Europe) and focused on the food industry. Hence, post the completion of the plant, RLPL would be in a position to commence commercial production from the new capacity. The new capacity has entailed an investment of Rs 90 crore and the company expects asset turnover of around 1.5x with the revenues spread across FY2022 and FY2023.
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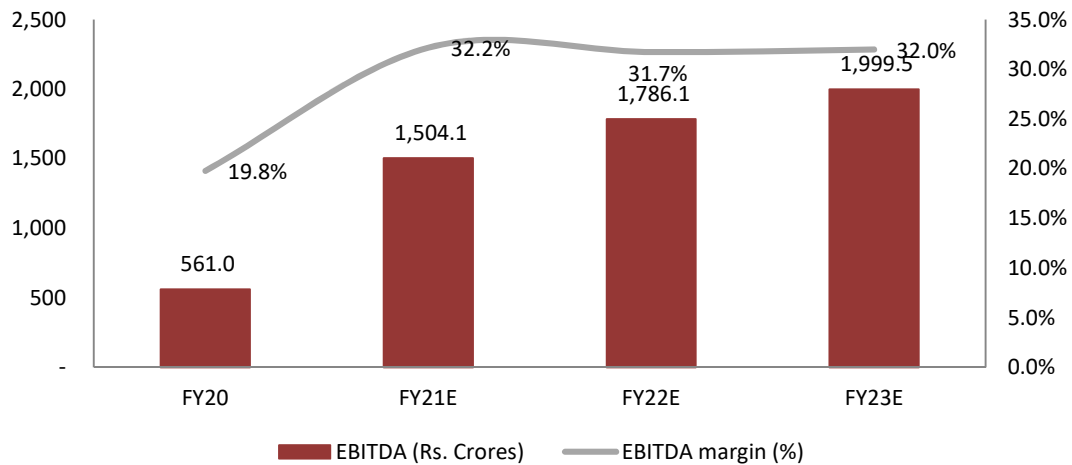
Return ratios to show growth in FY 21 and then normalize from FY23



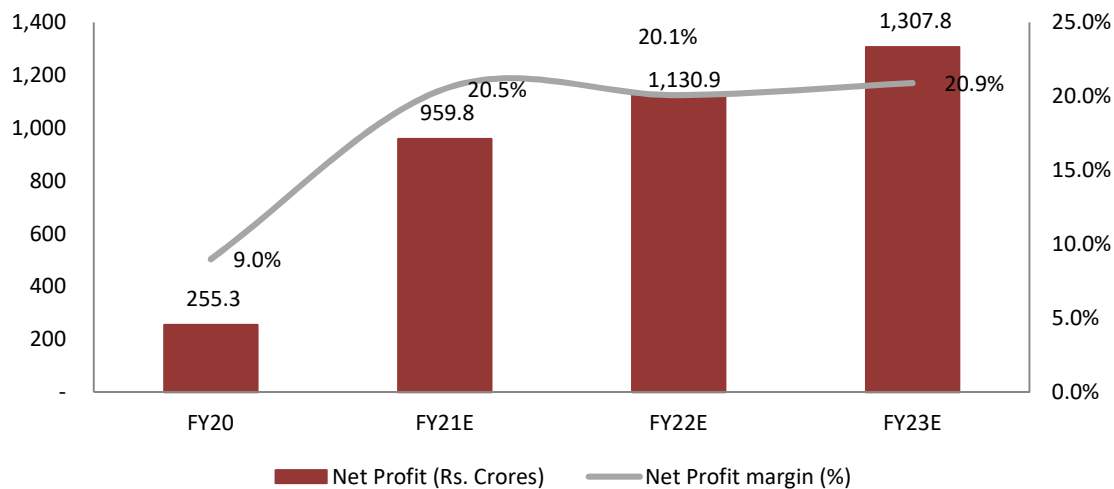
Revenue will experience growth going Forward



EBITDA will experience strong growth



Net profit will experience a growth trajectory



Outlook and Valuation

The company is evolving as a strong vertically integrated player with strong order book visibility, improving margin profile, strengthening return ratios and healthy FCF generation. We maintain BUY rating with a target price of Rs 610 based on 25x of FY23E EPS of 24.4

Company Overview

Established in 2005, Laurus Labs is a fully integrated pharma company operating across three segments – APIs (57% of FY20 revenues), finished dosage formulations (29%) and synthesis/CDMO (14%). Till date, Laurus has commercialised 60+ products across all three segments. Laurus provides APIs to top 10 large global pharma companies leveraging on a 3,403 KL capacity across four of its manufacturing facilities with an additional 870 KL under expansion. The API segment is classified into – 1) anti-viral (ARV and Hepatitis-C) (38%), 2) oncology (7%) and 3) other APIs (11%). Among ARVs, it mainly caters to first and second line treatment for HIV patients. Laurus is a market leader for Efavirenz, Emtricitabine and Tenofovir API supplies. It established an agreement in 2015 with Natco Pharma to supply Hepatitis-C APIs. The other API segment caters to non-oncology APIs such as cardiovascular, anti-diabetics, gastroenterology and ophthalmic therapies.

Key Risks

➤ Higher concentration and pricing pressure in ARVs:

The ARV segment accounted for 36% of revenues in FY20 (from 61% in FY19) and has witnessed pricing pressure in the past two years. A shift in the treatment regime from Efavirenz to Dolutegravir has adversely impacted gross margins. To arrest the margin compression and business decline in ARVs, management has taken steps toward (1) backward integration of some APIs including FTC and Lamivudine, and (2) rapid expansion of the non-ARV business. This, in our view, should mitigate the profitability risk.

➤ Regulatory risks:

Units 1 and 3 are critical as they account for 80% of the topline (mainly catering to the API and synthesis businesses). Unit 2 is Laurus' sole US formulations facility. All three units have recently received establishment inspection reports (EIR).



Balance sheet (Consolidated)

(Rs crore)	FY20	FY21E	FY22E	FY23E
Liabilities				
Paid up capital	107	107	107	107
Reserves and Surplus	1663	2527	3544	4721
Net worth	1770	2633	3651	4828
Total Loans	1,079	1,179	1,029	729
Other non- current liabilities	57	62	69	76
Long Term Provisions	46	50	56	61
Total Liabilities	2952	3926	4805	5694
Assets				
Total fixed assets	1717	1754	2516	2506
Goodwill	10	29	29	29
CWIP	47	52	78	90
Deffered Tax Asset	73.9	81.3	89.5	98.4
Investments	3	3	3	653
Net Current Assets	1014	1617	2019	2251
Other Assets	88	389	71	66
Total Assets	2952	3925	4805	5694

Profit & Loss Account (Consolidated)

(Rs crore)	FY20	FY21	FY22E	FY23E
Total operating Income	2832	4673	5626	6249
Operating Expenses	2271	3169	3840	4249
EBITDA	561	1504	1786	2000
Depreciation	187	202	289	310
EBIT	374	1302	1498	1690
Interest cost	90	64	61	43
Other Income & Extraordinary Items	10	26	23	41
Profit before tax	294	1264	1459	1688
Tax	38	304	328	380
Profit after tax	255	960	1131	1308
Minority Interests	-	-	-	-
P/L from Associates	-	-	-	-
Other	-	-	-	-
Adjusted PAT	255	960	1131	1308



Equity Research

Cash Flow (Consolidated)

Y.E March (Rs crore)	FY20	FY21	FY22E	FY23E
PAT	254	960	1131	1308
Depreciation	187	202	289	310
Chg in Working Capital	-200	-587	-329	-208
Other	106	64	61	43
Cash flow from operating activities	347	639	1152	1452
Capex	-222	-540	-750	-300
Other Invesment (Net of Exp)	1	-23	-4	-655
Cash flow from investing activities	-221	-563	-754	-955
Change in Borrowing	-6	100	-150	-300
Dividend	-32	-96	-113	-131
Others	-90	-64	-61	-43
Cash flow from financing activities	-128	-60	-324	-474
Net chg in cash	-1	17	74	24
Opening Cash	3	2	18	92
Closing Cash	2	18	92	116

Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY20	FY21	FY22E	FY23E
Solvency Ratios				
Debt/Equity	0.6	0.4	0.3	0.2
Debt/EBITDA	1.9	0.8	0.6	0.4
Margin (%)				
EBITDA	19.8%	32.2%	31.7%	32.0%
NPM	9.0%	20.5%	20.1%	20.9%
Return Ratios (%)				
RoE	14.4%	36.4%	31.0%	27.1%
ROCE	13.0%	33.8%	31.6%	30.4%
Valuation(x)				
P/E	72.0	19.2	16.3	14.1
EV/EBITDA	34.7	13.0	10.8	9.2
EV/Net Sales	6.9	4.2	3.4	2.9
Per share data (Rs.)				
EPS	4.8	17.9	21.1	24.4



Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

** To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.*



Member: BSE, NSE, MCX, MCX-SX, CDSL

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