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STOCK BROKING PVT. LTD.

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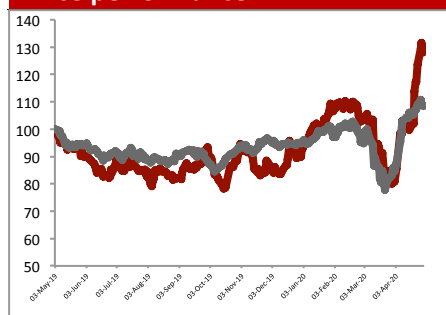
### BUY

Current Price	512
<b>Target Price</b>	<b>600</b>
Upside	17%
52 Week Range	298/535

### Key Share Data

Market Cap (Rs.bn)	54.7
Market Cap (US\$ mn)	727
No of o/s shares (mn)	106.9
Face Value	10
Monthly Avg.vol (BSE+NSE)	682
Nos'000	
BSE Code	540222
NSE Code	LAURUSLABS
Bloomberg	LAURUS IN

### Price performance



% Shareholding	Mar-20	Dec-19
Promoters	32.04	32.58
FII	36.65	35.88
DII	3.92	5.00
Others	27.38	26.54
<b>Total</b>	<b>100</b>	<b>100</b>

### Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY18	20690	9%	4133	20.0%	1676	-12%	15.81	32.3	11%	13%
FY19	22919	11%	3560	15.5%	938	-44%	8.81	57.9	6%	8%
FY20	28317	24%	5645	19.9%	2553	172%	23.88	21.4	14%	14%
FY21E	33364	18%	6760	20.3%	3241	27%	30.31	16.8	16%	16%
FY22E	37325	12%	7481	20.0%	3607	11%	33.74	15.1	15%	16%

### Scale up through major shift in product mix, operational efficiencies

Laurus Labs has seen a significant shift in product mix from ARV APIs to Formulations and custom synthesis, leading to an improvement in profitability. Going forward, we expect Laurus Labs to grow through operational efficiencies in formulations, custom synthesis and new second line ARV APIs. **We recommend investors to BUY Laurus Labs with a target price of Rs 600.**

### Profitability Improvement through custom synthesis and formulations

In FY20 Laurus Labs saw a **440 bps improvement in EBITDA margins to 20% in FY20, on two fronts**. Firstly, the **higher utilisation of its formulations plant**, improved gross margins 350 bps to 50%, in view of:

- Approval to ARV combination products (Tenofovir, Lamivudine and Dolutagravir (TLD).
- Initiation of formulation tender supplies to low-middle- income countries (LMIC), through Aspen Pharma for South Africa and directly for other countries.
- Launch of Metformin, Pregablin and ARV formulations in US, Canada and Europe leading to increasing utilisation of Formulations plant. Currently FDF is operating at 70% capacity utilisation and can scale up further with new launches.

Secondly, **profitability improved through growth in custom synthesis**, driven by business from Europe, which is skewed towards Q4 every year.

- Custom synthesis growth at 50% CAGR (FY17-20) to Rs 3454 mn in FY20.
- Increased contribution of custom synthesis to sales from 7% in FY18 to 12% in FY20, leading improvement in overall margins.
- Laurus Labs has set up a subsidiary Laurus Synthesis. The company has 20 ANDAs pending USFDA approval.

### Financial Outlook

We expect Laurus revenues to grow 15% CAGR to Rs 37 bn by FY22E. Assuming EBITDA margins of 20% going forward, we expect EBITDA to grow 15% CAGR to Rs 7.5 bn by FY22E. We expect PBT to grow at 22% CAGR to Rs 4.4 bn by FY22E, through lower interest costs and higher other income. PAT to grow 19% CAGR to Rs 3.6 bn by FY22E.

### Outlook & Valuation

At Rs 510, Laurus Labs trades at 15x FY22E EPS of Rs 33.3. We have valued Laurus Labs at 18x FY22 and arrived at a target price of Rs 600. **We re-iterate BUY with a target price of Rs 600.** The company has also announced a split from Rs 10 to Rs 2, pending shareholder approval at its AGM.



## LAURUS LABS LTD.

Rs in mn	Q4FY20	Q3FY20	Q4FY19	yoy	qoq	FY20	FY19	Var %
<b>Income from operations</b>	<b>8391.4</b>	<b>7296.0</b>	<b>6351.0</b>	<b>32%</b>	<b>15%</b>	<b>28317.2</b>	<b>22919.2</b>	<b>24%</b>
Material Cost	4183.1	3605.6	3419.1			14134.1	12356.4	
Employee Cost	881.3	884.4	740.2			3448.7	2892.0	
Research & Devt	420.0	410.0	0.0			1602.0	1411.4	
Other expenses	989.3	1324.2	1072.5			3,487.0	2,699.5	
<b>EBITDA</b>	<b>1917.7</b>	<b>1071.8</b>	<b>1119.3</b>	<b>71%</b>	<b>79%</b>	<b>5645.5</b>	<b>3559.8</b>	<b>59%</b>
<i>EBITDA margin</i>	<i>22.9%</i>	<i>14.7%</i>	<i>17.6%</i>			<i>19.9%</i>	<i>15.5%</i>	
Depreciation	460.5	475.5	434.7			1872.7	1641.9	
Interest	206.6	208.3	175.7			895.9	873.0	
Other Income	16.8	19.2	16.2			59.2	152.6	
<b>Profit before tax</b>	<b>1267.4</b>	<b>407.2</b>	<b>525.1</b>	<b>141%</b>	<b>211%</b>	<b>2936.1</b>	<b>1197.5</b>	<b>145%</b>
Tax	166.0	82.4	93.9			383.4	259.9	
Share of Profit/(Loss)	0.0	0.0	0.0			0.0	0.0	
<b>Profit after tax</b>	<b>1101.4</b>	<b>324.9</b>	<b>431.2</b>	<b>155%</b>	<b>239%</b>	<b>2552.7</b>	<b>937.6</b>	<b>172%</b>
Equity	1069.1	1069.1	1064.4			1069.1	1064.4	
Number of shares	106.9	106.9	106.4			106.9	106.4	
EPS - Diluted(Rs)	10.3	3.0	4.1			23.9	8.8	

## Q4FY20 concall KTAs

- 32% sales growth driven by 848% growth on low base in Formulations to Rs 2673 mn, (57% yoy/89% qoq) in custom synthesis to Rs 1479 mn. ARV APIs (degrew 14% yoy/+18% qoq) to Rs 4239 mn.
- In Formulations Laurus Labs launched 3 new products in Canada.
- The company has exported a small lot of Hydroxychloroquine Sulfate (HCQS) tablets to the US.
- EBITDA margins improved 530 bps yoy (+820 bps qoq) due to better product mix.
- The company plans to incur capex of Rs 3500 mn in FY21 towards increasing reactor capacity from 3403 KL to 5000KL. Phase 1 of the expansion is expected to be completed by November'20 and the balance by March'21.
- Laurus Labs alongwith Natco Pharma is in talks with Gilead Sciences for the manufacturing of REMDES VIR for the treatment of COVID 19.



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**LAURUS LABS FINANCIALS**

PROFIT & LOSS (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	CASH FLOW	FY18	FY19E	FY20	FY21E	FY22E
<b>Revenue from Operations (Net)</b>	20690	22919	28317	33364	37325	<b>Profit After Tax</b>	1676	938	2553	3241	3607
Raw Material Costs	10765	12356	14134	16515	18289	Add: Depreciation	1255	1642	1873	2004	2337
<b>Gross Profit</b>	<b>9925</b>	<b>10563</b>	<b>14183</b>	<b>16849</b>	<b>19036</b>	<b>Cash Profits</b>	<b>2931</b>	<b>2580</b>	<b>4425</b>	<b>5244</b>	<b>5944</b>
<i>Gross Margins</i>	48%	46%	50%	51%	51%	<b>(Increase)/ Decrease in-</b>					
Employee Benefits Expenses	2580	2892	3449	4069	4802	Trade receivables	-30	-1394	-815	-1227	-1085
Research & Development Expenses	1196	1411	1602	1835	1941	Long Term Loans & Advances	-8	4	-1	-1	-1
Operating and Selling Expenses	2015	2700	3487	4184	4812	Short Term Loans & Advances	-184	212	-273	-132	-103
						Other current assets	-184	212	-273	-132	-103
<b>EBITDA</b>	<b>4133</b>	<b>3560</b>	<b>5645</b>	<b>6760</b>	<b>7481</b>	Inventories	-757	-972	-2233	-89	-881
Depreciation and Amortisation	1255	1642	1873	2004	2337	Trade payables	492	1760	1273	631	729
<b>EBIT</b>	<b>2879</b>	<b>1918</b>	<b>3773</b>	<b>4756</b>	<b>5143</b>	Short term provisions	-2	20	45	19	15
Finance Expenses	796	873	896	878	856	Other current liabilities	253	-31	113	164	129
Other Income	292	153	59	74	111	Other Non Current Assets	63	22	91	-33	-36
<b>Profit Before Tax</b>	<b>2374</b>	<b>1198</b>	<b>2936</b>	<b>3952</b>	<b>4398</b>	Other Long Term Liabilities	16	-46	-34	57	62
Tax Expense	698	260	383	711	792	Long Term Provision	63	92	158	82	64
Share of results of associate	0	0	0	0	0	<b>Working Capital change</b>	<b>-279</b>	<b>-121</b>	<b>-1948</b>	<b>-660</b>	<b>-1210</b>
<b>Profit for the year</b>	<b>1676</b>	<b>938</b>	<b>2553</b>	<b>3241</b>	<b>3607</b>	<b>Net Cash generated from operations</b>	<b>2540</b>	<b>2376</b>	<b>2657</b>	<b>4368</b>	<b>3835</b>
						<b>Net Cash from Investing activities</b>	<b>-3897</b>	<b>-2573</b>	<b>-1797</b>	<b>-3922</b>	<b>-2537</b>
<b>BALANCE SHEET</b>						<b>Net Cash (used in)/ generated from financing activities</b>	<b>1346</b>	<b>197</b>	<b>-346</b>	<b>-392</b>	<b>-956</b>
Share Capital	1060.3	1064.4	1069.1	1069.1	1069.1	<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>-10.3</b>	<b>-0.4</b>	<b>513.5</b>	<b>53.9</b>	<b>342.0</b>
Reserves & Surplus	13,766	14,520	16,629	19,494	22,663	<b>Cash &amp; Cash equivalents at the beginning of the year</b>	40.9	30.6	30.2	17.4	71.2
<b>Net Worth</b>	<b>14826.4</b>	<b>15584.1</b>	<b>17697.8</b>	<b>20563.0</b>	<b>23732.0</b>	<b>Cash &amp; Cash equivalents at the end of the year</b>	30.6	30.2	543.8	71.2	413.3
Preference Shares	0.0	0.0	0.0	0.0	0.0	<b>Ratios</b>					
Long term Borrowings	1,417	2,587	1,856	1,856	1,357	OPM	20.0%	15.5%	19.9%	20.3%	20.0%
Short term Borrowings	7,585	6,842	7,905	7,905	7,905	NPM	8.1%	4.1%	9.0%	9.7%	9.7%
<b>TOTAL DEBT</b>	<b>9,002</b>	<b>9,429</b>	<b>9,761</b>	<b>9,761</b>	<b>9,262</b>	Tax rate	29%	22%	13%	18%	18%
Other Long-term liabilities	647	601	567	624	687	<b>Growth Ratios (%)</b>					
Deferred tax Liabilities (Net)	0	0	0	0	0	Net Sales	9%	11%	24%	18%	12%
<b>CAPITAL EMPLOYED</b>	<b>24,475</b>	<b>25,614</b>	<b>28,026</b>	<b>30,948</b>	<b>33,680</b>	Operating Profit	1%	-14%	59%	20%	11%
						PAT	-12%	-44%	172%	27%	11%
Tangible assets - Gross	17,687	20,717	23,217	26,717	29,217	<b>Per Share (Rs.)</b>					
Acc. Depreciation	3,048	4,645	6,518	8,522	10,859	<b>Net Earnings (EPS) - Diluted</b>	15.8	8.8	23.9	30.3	33.7
<b>Net Block - Tangibles</b>	<b>14,639</b>	<b>16,072</b>	<b>16,699</b>	<b>18,195</b>	<b>18,358</b>	Cash Earnings (CPS) - Diluted	27.7	24.4	41.8	49.6	56.2
<b>Net Block - Intangibles</b>	<b>72</b>	<b>121</b>	<b>0</b>	<b>0</b>	<b>0</b>	Number of shares	106.0	106.4	106.9	106.9	106.9
Capital Work in Progress	1,632	1,096	672	1,000	1,000	Book Value	139.8	146.4	165.5	192.3	222.0
<b>Total Fixed Assets</b>	<b>16,342</b>	<b>17,290</b>	<b>17,371</b>	<b>19,195</b>	<b>19,358</b>	Free Cash Flow	-11.3	-6.2	1.4	8.6	15.7
<b>Goodwill</b>	<b>97</b>	<b>97</b>	<b>97</b>	<b>97</b>	<b>97</b>	<b>Valuation Ratios</b>					
Non-current Investment	34	34	34	34	34	P/E(x)	32.3	57.9	21.4	16.8	15.1
Other non-current assets	979	967	1,076	1,183	1,302	P/B(x)	3.6	3.4	3.0	2.6	2.3
Current Investments	0	0	0	350	1,350	EV/EBIDTA(x)	15.4	18.0	11.4	9.5	8.5
<b>Current assets</b>						EV/SALES (x)	3.1	2.8	2.3	1.9	1.7
Inventories	5,848	6,819	9,052	9,141	10,021	<b>FCF Yield(%)</b>	-2%	-1%	0%	2%	3%
Trade receivables	5,706	7,099	7,914	9,141	10,226	<b>Return Ratios (%)</b>					
<b>Cash and bank balance</b>	<b>31</b>	<b>30</b>	<b>17</b>	<b>71</b>	<b>413</b>	ROE	11%	6%	14%	16%	15%
<b>Total Loans &amp; Advances</b>	<b>8</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	ROCE	13%	8%	14%	16%	16%
Other current assets	678	467	739	871	974						
<b>Total Current assets</b>	<b>12,240</b>	<b>14,390</b>	<b>17,711</b>	<b>19,159</b>	<b>21,229</b>						
<b>Current liabilities</b>											
Trade payables	3,123	4,883	6,156	6,787	7,516						
Other current liabilities	2,316	2,449	2,753	3,016	3,248						
Short term provisions	45	65	109	129	144						
Long term provisions	208	300	458	540	604						
<b>Total Current Liabilities</b>	<b>5,692</b>	<b>7,697</b>	<b>9,477</b>	<b>10,472</b>	<b>11,513</b>						
Working Capital	6,548	6,692	8,234	8,687	9,716						
<b>CAPITAL DEPLOYED</b>	<b>24,031</b>	<b>25,111</b>	<b>26,829</b>	<b>29,619</b>	<b>32,271</b>						



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