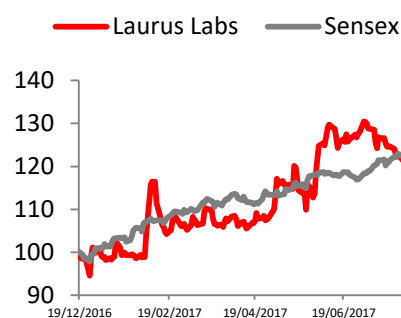


**BUY**

Current Price	526
Target Price	744
Upside/Downside	41%
52 Week Range	634/453

Key Share Data

Market Cap (Rs.bn)	57.5
Market Cap (US\$ mn)	9.02
No of o/s shares (mn)	105.8
Face Value	10
Monthly Avg.vol (BSE+NSE) Nos'000	321
BSE Code	540222
NSE Code	LAURUSLABS
Bloomberg	LAURUS:IN

Price performance

% Shareholding	Jun-17	Mar-17
Promoters	30.64	30.64
FII	11.07	11.09
DII	41.22	41.44
Others	17.07	16.83
Total	100	100

Key Financials

Year	Sales	% Growth	EBIDTA	OPM (%)	PAT	% Growth	EPS	PE (x)	RoE (%)	RoCE (%)
FY16	17775.8	34%	3622.0	20.4%	1337.4	95%	12.65	6.2	17%	15%
FY17	19046.5	7%	4076.4	21.4%	1902.8	42%	17.99	29.2	14%	15%
FY18E	22916.3	20%	4958.8	21.6%	2502.2	32%	23.66	22.2	16%	17%
FY19E	29837.1	30%	6824.4	22.9%	3746.3	50%	35.42	14.8	20%	21%

Laurus Labs Q1FY18 results were in line with expectations. While revenues exceeded expectations, the earnings were lower due to higher taxes.

Robust revenue growth, earnings grow on debt repayment

Revenues grew 18% to Rs 4912 mn. Ebitda (ex OI) increased by 14% to Rs 965 mn. Ebitda margins improved 30 bps to 21.2% due to better product mix. PAT increased by 52% to Rs 389 mn due to lower interest burden arising from the repayment of debt, despite higher taxes. EPS for the quarter was at Rs 3.66.

Key takeaways from the concall

- ✓ Revenues grew on account of overall growth across businesses in Generic APIs (15%), Ingredients (59%) and Custom Synthesis (86%).
- ✓ Generics API grew 15% mainly due to growth in Hep C and Oncology. Business from Oncology APIs grew 83% due to restored business from two customers.
- ✓ During the quarter, Laurus Labs in partnership with Natco Pharma launched Velpatasvir combination product for the treatment of Hepatitis C in India.
- ✓ Laurus Labs commenced anti-retroviral (ARVs) supplies to Europe.
- ✓ Custom synthesis business grew 86% on deeper engagement with Aspen, South Africa and better business from other clients.
- ✓ During the quarter, Laurus signed a manufacturing & supplies agreement for an oncology new chemical entity (NCE) for clinical phase and commercial supplies.
- ✓ The company filed 4 ANDAs during the quarter.
- ✓ Laurus Labs received the establishment inspection report (EIR) from the USFDA for Unit 2. The plant had earlier received one observation which is now cleared.
- ✓ Inspection from the World Health Organisation (WHO) is due in September.
- ✓ USFDA inspection of Unit 1 and 3 due in September'17.
- ✓ The company's expansion for manufacturing 5 bn tablets is expected to be commissioned by Q3FY18.

Outlook & Valuation

We are positive on the developments at Laurus Labs. The USFDA clearance to Unit 2 is welcome for the company's growth. The scale up of business across APIs, ingredients and custom synthesis will trigger growth in profitability. We believe Laurus Labs will benefit from the research background of its promoters and its focus on high volume therapies of ARVs, Hep C and Oncology. At Rs 526, Laurus Labs trades at 15x FY19E of Rs 35. **We recommend investors to BUY with a long term target price of Rs 744.**



Rs in mn	Q1FY18	Q4FY17	Q1FY17	yoy	qoq	FY17	FY16	Var %
Income from operations	4912.2	4735.2	4164.9	18%	4%	19046.5	17775.8	7%
Material Cost	2585.2	2253.7	2194.1			9967.7	10081.6	
Employee Cost	627.2	589.3	531.3			2462.3	1885.2	
Other expenses	734.7	707.5	589.6			2,540.2	2,187.0	
EBITDA	965.1	1184.8	849.9	14%	-19%	4076.4	3622.0	13%
EBITDA margin	19.6%	25.0%	20.4%			21.4%	20.4%	
Depreciation	297.9	266.9	247.6			1059.8	864.1	
Interest	191.0	148.4	279.1			999.0	1111.1	
Other Income	75.4	89.3	23.2			334.4	43.6	
Profit before tax	551.7	858.9	346.5	59%	-36%	2352.0	1690.4	39%
Tax	162.7	118.3	79.6			438.6	349.0	
Share of Profit/(Loss)	0.0	0.0	-10.5			-10.6	-4.0	
Profit after tax	389.1	740.6	256.4	52%	-47%	1902.8	1337.4	42%
Equity	1057.6	1057.6	987.5			1057.6	157.7	
Number of shares	105.8	105.8	98.7			105.8	15.8	
EPS - Diluted(Rs)	3.7	7.0	2.4			18.0	12.6	



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LAURUS LABS FINANCIALS

PROFIT & LOSS (Rs mn)	FY16	FY17	FY18E	FY19E	CASH FLOW	FY16	FY17	FY18E	FY19E
Revenue from Operations (Net)	17775.78	19046.47	22916.3	29837.05	Profit After Tax	1337.4	1902.8	2502.2	3746.3
Raw Material Costs	10081.6	9967.7	12031.1	15664.5	Add: Depreciation	864.1	1059.8	1106.8	1275.5
Gross Profit	7694.2	9078.8	10885.2	14172.6	Cash Profits	2201.4	2962.6	3609.0	5021.8
<i>Gross Margins</i>	43.3%	47.7%	47.5%	47.5%	(Increase)/ Decrease in:-				
Employee Benefits Expenses	1,885.2	2,462.3	2,954.8	3,545.7	Trade receivables	-1,597.9	-1,227.5	-1,230.2	-1,268.3
Other Manufacturing Expenses	757.4	795.3	874.8	918.5	Long Term Loans & Advances	1,185.6	-97.7	-37.7	-45.2
Research & Development Expenses	796.2	952.3	1,145.8	1,790.2	Short Term Loans & Advances	-268.0	-80.0	-100.4	-179.6
Operating and Selling Expenses	633.5	792.6	951.1	1,093.7	Other current assets	-268.0	-80.0	-100.4	-179.6
EBITDA	3622.0	4076.4	4958.8	6824.4	Inventories	-116.0	-219.5	-1,065.5	-1,729.1
Depreciation and Amortisation	864.1	1059.8	1106.8	1275.5	Trade payables	168.0	154.9	500.4	816.9
EBIT	2757.9	3016.5	3852.0	5548.8	Short term provisions	-15.5	24.7	20.6	36.8
Finance Expenses	1,111.1	999.0	799.4	726.7	Other current liabilities	-1,161.9	413.1	118.8	212.4
Other Income	43.6	334.4	133.8	120.4	Other Non Current Assets	-450.4	87.4	-50.3	-55.3
Profit Before Tax	1690.4	2352.0	3186.3	4942.5	Other Long Term Liabilities	-281.9	466.1	63.1	69.4
Tax Expense	349.0	438.6	669.1	1186.2	Long Term Provision	16.5	24.0	18.6	33.3
Share of results of associate	-4.02	-10.55	-15	-10	Working Capital change	-2,789.6	-534.6	-1,863.2	-2,288.3
Profit for the year	1337.4	1902.8	2502.2	3746.3	Net Cash generated from operations	979.0	2,711.9	1,996.6	3,078.5
					Net Cash from Investing activities	-2667.0	-3854.4	-1172.6	-2205.5
					Net Cash (used in)/ generated from financing activities	1,386.9	959.3	-667.5	-309.3
BALANCE SHEET					Net increase/(decrease) in cash and cash equivalents	-301.1	-183.1	156.5	563.6
Share Capital	157.7	1057.6	1057.6	1057.6	Cash & Cash equivalents at the beginning of the year	588.9	287.7	104.6	261.1
Reserves & Surplus	7,744.2	12,246.9	14,501.7	17,938.6	Cash & Cash equivalents at the end of the year	287.7	104.7	261.1	824.7
Net Worth	7901.9	13304.5	15559.2	18996.2					
Preference Shares	666.1	0.0	0.0	0.0	Ratios				
Long term Borrowings	4,597.4	1,245.6	825.6	825.6	OPM	20.4%	21.4%	21.6%	22.9%
Short term Borrowings	4,814.2	6,441.7	6,441.7	6,441.7	NPM	7.5%	10.0%	10.9%	12.6%
TOTAL DEBT	9,411.6	7,687.3	7,267.3	7,267.3	Tax rate	21%	19%	21%	24%
Other Long-term liabilities	164.7	630.7	693.8	763.2					
Deferred tax Liabilities (Net)	0.0	0.0	0.0	0.0	Growth Ratios (%)				
CAPITAL EMPLOYED	18144.2	21622.5	23520.3	27026.7	Net Sales	34%	7%	20%	30%
Tangible assets - Gross	12,860.0	15,896.9	16,396.9	18,896.9	Operating Profit	81%	13%	22%	38%
Acc. Depreciation	2,713.6	3,773.4	4,880.2	6,155.8	PAT	95%	42%	32%	50%
Net Block - Tangibles	10,146.4	12,123.4	11,516.6	12,741.1					
Net Block - Intangibles	63.9	78.5	82.5	86.6	Per Share (Rs.)				
Capital Work in Progress	696.0	1432.6	2000.0	1000.0	Net Earnings (EPS) - Diluted	12.65	17.99	23.66	35.42
Total Fixed Assets	10,906.3	13,634.5	13,599.1	13,827.7	Cash Earnings (CPS) - Diluted	20.82	28.01	34.13	47.48
Goodwill	0.00	97.39	97.39	97.39	Number of shares	15.77	105.76	105.76	105.76
Non-current Investment	70.5	0.0	0.0	0.0	Book Value	501.16	125.80	147.12	179.62
Other non-current assets	1146.3	1214.4	1265.9	1322.6	Free Cash Flow	-87.4	19.5	14.0	5.3
Current Investments	0.0	34.1	134.1	834.1					
Current assets					Valuation Ratios				
Inventories	4,870.9	5,090.5	6,156.0	7,885.2	P/E(x)	6.2	29.2	22.2	14.8
Trade receivables	4,448.6	5,676.1	6,906.3	8,174.5	P/B(x)	7.0	4.1	3.5	2.9
Cash and bank balance	287.7	104.6	261.1	824.7	EV/EBIDTA(x)	17.9	15.5	12.6	9.1
Total Loans & Advances	90.7	188.5	226.2	271.4	EV/SALES (x)	3.6	3.3	2.7	2.1
Other current assets	414.3	494.3	594.7	774.3					
Total Current assets	9,824.5	11,449.2	13,883.1	17,105.4	FCF Yield(%)	-2%	4%	3%	1%
Current liabilities									
Trade payables	2476.1	2631.0	3131.4	3948.3	Return Ratios (%)				
Other current liabilities	1470.7	2087.7	2356.8	2734.6	ROE	17%	14%	16%	20%
Short term provisions	76.5	101.2	121.8	158.6	ROCE	15%	15%	17%	21%
Long term provisions	67.7	91.7	110.4	143.7					
Total Current Liabilities	4091.0	4911.7	5720.4	6985.2					
Working Capital	5733.5	6537.6	8162.8	10120.2					
CAPITAL DEPLOYED	18,144.2	21,622.5	23,520.3	27,026.7					



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