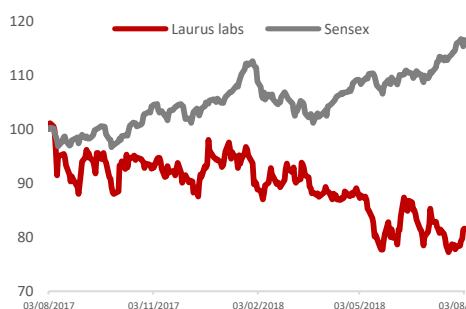


**BUY**

Current Price	440
Target Price	535
Upside/Downside	22%
52 Week Range	592/430

**Key Share Data**

Market Cap (Rs.bn)	45.72
Market Cap (US\$ mn)	666.23
No of o/s shares (mn)	106.0
Face Value	10
Monthly Avg.vol (BSE+NSE) Nos'000	26.72
BSE Code	540222
NSE Code	LAURUSLABS
Bloomberg	LAURUS:IN

**Price performance**

% Shareholding	Jun-18	Mar-18
Promoters	32.06	30.60
FII	10.85	7.80
DII	42.26	41.50
Others	14.83	20.10
<b>Total</b>	<b>100</b>	<b>100</b>

**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	5.2	17%	15%
FY17	19046.5	7%	4076.4	21.4%	1902.8	42%	17.99	24.5	14%	15%
FY18	20690.0	9%	4133.2	20.0%	1676.1	-12%	15.81	27.8	11%	13%
FY19E	24576.8	19%	3788.1	15.4%	1395.5	-17%	13.16	33.4	9%	11%
FY20E	34526.0	40%	6852.1	19.8%	3461.1	148%	32.64	13.5	18%	20%

Laurus Labs Q1FY19 results were below estimates. While revenues were in line with estimates, the decline in earnings was more than our anticipation, in view of increase in raw materials imported from China and higher overheads from the FDF plant.

**Profitability drops amidst higher raw material costs and overheads**

Revenues increased 10% yoy (-4% qoq) to Rs 5390 mn. The API revenues increased 7% to Rs 4608 mn. While ARVs grew 37% yoy (+2% qoq) to Rs 3710 mn, Hep C declined further (-37% qoq) to Rs 241 mn. The Oncology APIs increased 19% qoq (flat yoy) to Rs 441 mn. Custom Synthesis increased 65% yoy (14% qoq) to Rs 541 mn. The ingredients business was 24% yoy around Rs 190 mn.

Gross Profit increased 5% to Rs 2439 mn. Gross margins declined to 45.2% in view of the 14% increase in raw material costs. EBITDA degrew 17% yoy (-31% qoq) in view of higher employee costs & R & D expenses.

With the commissioning of the formulations plant, depreciation was higher at 382 mn. Interest was higher at Rs 223 mn. PBT declined 59% yoy (-65% qoq) to Rs 229 mn. PAT was 65% lower at Rs 165 mn. EPS for the quarter was at Rs 1.65.

**Outlook & Valuation**

The recent commissioning of the formulations plant has increased overheads, which along with the increase in raw material prices have brought down profitability. Laurus Labs has been able to partially pass on the price increases, with a balance hit to the company. We believe this is a temporary phase which may last a quarter or two till the formulations and custom synthesis business scales up. The pace of the scale up is important to the progress of Laurus Labs, as 40% of its assets are currently not generating revenue. With the recent approvals to ARVs and Metformin, the management is confident of scale up from H2FY19.

At Rs 440, Laurus Labs trades at 14x FY20E EPS of Rs 32. We are cautious about the business developments at Laurus Labs. The uncertainties around business and execution have increased the risk in the investment. We reduce our estimates and target price to Rs 535. We recommend investors to BUY Laurus Labs with a long term target price of Rs 535.



Rs in mn	Q1FY19	Q4FY18	Q1FY18	yoy	qoq	FY18	FY17	Var %
<b>Income from operations</b>	<b>5390.0</b>	<b>5602.4</b>	<b>4912.2</b>	<b>10%</b>	<b>-4%</b>	<b>20690.0</b>	<b>19046.5</b>	<b>9%</b>
Material Cost	2951.5	2909.2	2585.2			10765.4	9967.7	
Employee Cost	728.1	672.3	627.2			2580.5	2462.3	
Research & Devt	345.0	442.0	229.0			1196.0	1402.0	
Other expenses	560.0	410.1	505.7			2,015.0	1,138.2	
<b>EBITDA</b>	<b>805.4</b>	<b>1168.8</b>	<b>965.1</b>	<b>-17%</b>	<b>-31%</b>	<b>4133.2</b>	<b>4076.4</b>	<b>1%</b>
<i>EBITDA margin</i>	<i>14.9%</i>	<i>20.9%</i>	<i>19.6%</i>			<i>20.0%</i>	<i>21.4%</i>	
Depreciation	381.9	346.1	297.9			1254.5	1059.8	
Interest	223.2	232.6	191.0			796.4	999.0	
Other Income	25.9	50.8	75.4			291.9	334.4	
<b>Profit before tax</b>	<b>226.1</b>	<b>640.9</b>	<b>551.7</b>	<b>-59%</b>	<b>-65%</b>	<b>2374.2</b>	<b>2352.0</b>	<b>1%</b>
Tax	60.7	190.1	162.7			698.1	438.6	
Share of Profit/(Loss)	0.0	0.0	0.0			0.0	-10.6	
<b>Profit after tax</b>	<b>165.4</b>	<b>450.8</b>	<b>389.1</b>	<b>-57%</b>	<b>-63%</b>	<b>1676.1</b>	<b>1902.8</b>	<b>-12%</b>
Equity	1060.3	1060.3	1057.6			1060.3	1057.6	
Number of shares	106.0	106.0	105.8			106.0	105.8	
EPS - Diluted(Rs)	1.6	4.3	3.7			15.8	18.0	

### Key takeaways from the concall

1. Profitability declined due to increase in raw material cost from China, lower sales of contract manufacturing APIs, unfavourable product mix and higher exchange rate for imports.
2. Laurus Labs is working towards backward integration with alternative supplies and in-house manufacturing, in order to reduce its dependence on imports from China. The company expects partial improvement in Q2 and restoration of EBITDA margins from Q3FY19.
3. The company has received tentative approval from The Global Fund, for Efavirenz.
4. Laurus Labs filed 13 ANDAs during the quarter.
5. The company expects to start Metformin supplies to US from Q2FY19.
6. Laurus Labs expects to receive 2 approvals from USFDA.



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**LAURUS LABS FINANCIALS**

PROFIT & LOSS (Rs mn)	FY16	FY17	FY18	FY19E	FY20E	CASH FLOW	FY16	FY17	FY18	FY19E	FY20E
<b>Revenue from Operations (Net)</b>	17775.8	19046.5	20690.0	24576.8	34526.0	<b>Profit After Tax</b>	1337.4	1902.8	1676.1	1395.5	3461.1
Raw Material Costs	10081.6	9967.7	10765.4	13517.2	18644.1	Add: Depreciation	864.1	1059.8	1254.5	1212.6	1381.3
<b>Gross Profit</b>	<b>7694.2</b>	<b>9078.8</b>	<b>9924.7</b>	<b>11059.6</b>	<b>15882.0</b>	<b>Cash Profits</b>	<b>2201.4</b>	<b>2962.6</b>	<b>2930.6</b>	<b>2608.0</b>	<b>4842.4</b>
Gross Margins	43.3%	47.7%	48.0%	45.0%	46.0%	(Increase)/ Decrease in:-					
Employee Benefits Expenses	1,885.2	2,462.3	2,580.5	3,096.6	3,715.9	Trade receivables	-1,597.9	-1,227.5	-29.8	-354.2	-2,453.2
Other Manufacturing Expenses	757.4	781.1	805.5	886.1	974.7	Long Term Loans & Advances	1,185.6	0.0	-8.3	-1.7	-2.0
Research & Development Expenses	796.2	1,402.0	1,196.0	1,474.6	2,071.6	Short Term Loans & Advances	-268.0	-80.0	-184.0	-127.4	-326.1
Operating and Selling Expenses	633.5	357.1	1,209.5	1,814.2	2,267.7	Other current assets	-268.0	-80.0	-184.0	-127.4	-326.1
<b>EBITDA</b>	<b>3622.0</b>	<b>4076.4</b>	<b>4133.2</b>	<b>3788.1</b>	<b>6852.1</b>	Inventories	-116.0	-219.5	-757.4	-1,003.4	-2,087.7
Depreciation and Amortisation	864.1	1059.8	1254.5	1212.6	1381.3	Trade payables	168.0	154.9	492.3	394.9	1,079.0
<b>EBIT</b>	<b>2757.9</b>	<b>3016.5</b>	<b>2878.7</b>	<b>2575.6</b>	<b>5470.8</b>	Short term provisions	-15.5	-29.5	-2.3	8.4	21.5
Finance Expenses	1,111.1	999.0	796.4	900.2	900.2	Other current liabilities	-1,161.9	413.1	253.0	157.4	402.8
Other Income	43.6	334.4	291.9	262.7	236.5	Other Non Current Assets	-450.4	87.4	62.8	-44.0	-48.4
<b>Profit Before Tax</b>	<b>1690.4</b>	<b>2352.0</b>	<b>2374.2</b>	<b>1938.1</b>	<b>4807.1</b>	Other Long Term Liabilities	-281.9	466.1	16.3	64.7	71.2
Tax Expense	349.0	438.6	698.1	542.7	1346.0	Long Term Provision	16.5	78.2	62.5	39.1	100.2
Share of results of associate	-4.02	-10.55	0	0	0	<b>Working Capital change</b>	<b>-2,789.6</b>	<b>-436.9</b>	<b>-278.9</b>	<b>-993.5</b>	<b>-3,569.0</b>
<b>Profit for the year</b>	<b>1337.4</b>	<b>1902.8</b>	<b>1676.1</b>	<b>1395.5</b>	<b>3461.1</b>	Net Cash generated from operations	<b>1,711.3</b>	<b>2,094.8</b>	<b>2,540.1</b>	<b>324.7</b>	<b>2,690.6</b>
						Net Cash from Investing activities	-3117.3	-3767.0	-3896.8	353.3	-2553.3
						Net Cash (used in)/ generated from financing activities	<b>1,104.9</b>	<b>1,425.4</b>	<b>1,346.4</b>	<b>-245.4</b>	<b>-301.0</b>
<b>BALANCE SHEET</b>						Net increase/(decrease) in cash and cash equivalents	<b>-301.1</b>	<b>-246.8</b>	<b>-10.3</b>	<b>432.5</b>	<b>-163.6</b>
Share Capital	157.7	1057.6	1060.3	1060.3	1060.3	Cash & Cash equivalents at the beginning of the year	588.9	287.7	40.9	30.6	463.1
Reserves & Surplus	7,744.2	12,246.9	13,766.1	14,851.4	17,940.4	Cash & Cash equivalents at the end of the year	287.7	40.9	30.6	463.1	299.5
<b>Net Worth</b>	<b>7901.9</b>	<b>13304.5</b>	<b>14826.4</b>	<b>15911.7</b>	<b>19000.7</b>						
Preference Shares	666.1	0.0	0.0	0.0	0.0	<b>Ratios</b>					
Long term Borrowings	4,597.4	1,245.6	1,416.6	1,416.6	1,416.6	OPM	20.4%	21.4%	20.0%	15.4%	19.8%
Short term Borrowings	4,814.2	6,441.7	7,585.2	7,585.2	7,585.2	NPM	7.5%	10.0%	8.1%	5.7%	10.0%
<b>TOTAL DEBT</b>	<b>9,411.6</b>	<b>7,687.3</b>	<b>9,001.8</b>	<b>9,001.8</b>	<b>9,001.8</b>	Tax rate	21%	19%	29%	28%	28%
Other Long-term liabilities	164.7	630.7	647.0	711.7	782.8						
Deferred tax Liabilities (Net)	0.0	0.0	0.0	0.0	0.0	<b>Growth Ratios (%)</b>					
<b>CAPITAL EMPLOYED</b>	<b>18144.2</b>	<b>21622.5</b>	<b>24475.1</b>	<b>25625.1</b>	<b>28785.3</b>	Net Sales	34%	7%	9%	19%	40%
						Operating Profit	81%	13%	1%	-8%	81%
Tangible assets - Gross	10,980.4	13,963.8	15,463.8	17,963.8	20,463.8	PAT	95%	42%	-12%	-17%	148%
Acc. Depreciation	834.0	1,840.4	3,094.9	4,307.5	5,688.8						
<b>Net Block - Tangibles</b>	<b>10,146.4</b>	<b>12,123.4</b>	<b>12,368.9</b>	<b>13,656.3</b>	<b>14,775.0</b>	<b>Per Share (Rs.)</b>					
<b>Net Block - Intangibles</b>	<b>63.9</b>	<b>78.5</b>	<b>71.6</b>	<b>75.2</b>	<b>78.9</b>	Net Earnings (EPS) - Diluted	12.6	18.0	15.8	13.2	32.6
Capital Work in Progress	696.0	1432.6	1631.8	1000.0	1000.0	Cash Earnings (CPS) - Diluted	20.8	28.0	27.7	24.7	45.8
<b>Total Fixed Assets</b>	<b>10,906.3</b>	<b>13,634.5</b>	<b>14,072.3</b>	<b>14,731.5</b>	<b>15,853.9</b>	Number of shares	15.8	105.8	106.0	106.0	106.0
Goodwill	0.00	97.39	97.39	97.39	97.39	Book Value	501.2	125.8	139.8	150.1	179.2
Non-current Investment	70.5	34.1	34.1	34.1	34.1	Free Cash Flow	31.8	18.9	9.8	-20.5	1.8
Other non-current assets	1146.3	1214.4	978.9	1023.9	1073.4						
Current Investments	0.0	0.0	0.0	1500.0	500.0	<b>Valuation Ratios</b>					
<b>Current assets</b>						P/E(x)	5.2	24.5	27.8	33.4	13.5
Inventories	4,870.9	5,090.5	5,847.8	6,851.2	8,938.9	P/B(x)	5.8	3.5	3.1	2.9	2.4
Trade receivables	4,448.6	5,676.1	5,705.9	6,060.0	8,513.3	EV/EBIDTA(x)	15.4	13.3	13.4	14.5	8.1
<b>Cash and bank balance</b>	<b>287.7</b>	<b>40.9</b>	<b>30.6</b>	<b>463.1</b>	<b>299.5</b>	EV/SALES (x)	3.1	2.8	2.7	2.2	1.6
<b>Total Loans &amp; Advances</b>	<b>90.7</b>	<b>0.0</b>	<b>8.3</b>	<b>9.9</b>	<b>11.9</b>						
Other current assets	414.3	494.3	678.2	805.7	1,131.8	<b>FCF Yield(%)</b>	1%	4%	2%	-5%	0%
<b>Total Current assets</b>	<b>9,824.5</b>	<b>11,260.8</b>	<b>12,240.2</b>	<b>13,726.8</b>	<b>18,595.9</b>						
<b>Current liabilities</b>						<b>Return Ratios (%)</b>					
Trade payables	2476.1	2631.0	3123.3	3518.2	4597.2	ROE	17%	14%	11%	9%	18%
Other current liabilities	1470.7	2087.7	2315.7	2620.8	3186.2	ROCE	15%	15%	13%	11%	20%
Short term provisions	76.5	47.1	44.7	53.1	74.7						
Long term provisions	67.7	145.9	208.4	247.5	347.7						
<b>Total Current Liabilities</b>	<b>4091.0</b>	<b>4911.7</b>	<b>5692.1</b>	<b>6439.7</b>	<b>8205.8</b>						
Working Capital	5733.5	6349.1	6548.1	7287.1	10390.1						
<b>CAPITAL DEPLOYED</b>	<b>18,144.2</b>	<b>21,370.3</b>	<b>21,761.3</b>	<b>25,137.1</b>	<b>28,248.4</b>						



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