



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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## Result update@ Dalal & Broacha

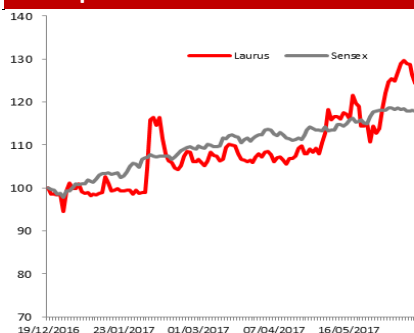
### BUY

Current Price	533
Target Price	744
Upside/Downside	40%
52 Week Range	634/453

### Key Share Data

Market Cap (Rs.bn)	56.3
Market Cap (US\$ mn)	861.09
No of o/s shares (mn)	105.8
Face Value	10
Monthly Avg.vol (BSE+NSE) Nos'000	88
BSE Code	540222
NSE Code	LAURUSLABS
Bloomberg	LAURUS:IN

### Price performance



% Shareholding	Sep-17	Jun-17
Promoters	30.56	30.64
FII	9.76	11.07
DII	42.08	41.22
Others	17.6	17.07
<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	6.3	17%	15%
FY17	19046.5	7%	4076.4	21.4%	1902.8	42%	17.99	29.6	14%	15%
FY18E	23254.3	22%	5102.4	21.9%	2539.2	33%	24.01	22.2	16%	17%
FY19E	30226.6	30%	6986.0	23.1%	3740.3	47%	35.37	15.1	20%	21%

Laurus Labs Q2FY18 results were marginally below expectations. Both revenues and earnings growth was muted due to unfavourable product mix due to the pricing pressure in Hepatitis C.

### Pricing pressure in Hep C gives flat performance

Revenues increased 3% to Rs 5386 mn against our estimate of Rs 5460. The growth in APIs was at 4%, custom synthesis (25%) on a low base and ingredients de-grew 22%.

EBITDA grew 2% to Rs 1126 mn against our estimate of Rs 1189 mn. EBITDA margins were 10 bps lower at 20.9%. PBT grew 2% to Rs 696 mn due to marginally lower other income.

PAT de-grew 4% to Rs 487 mn on account of higher taxes.

EPS for the quarter was at Rs 4.61 against our estimate of Rs 4.9.

### Key takeaways from the concall

- ✓ Hep C business faced challenges of price erosion in India. While volume growth is intact, new products are expected to expand the market.
- ✓ Revenues from ARVs increased 23% to Rs 3824 mn during the quarter. Laurus Labs expects anti-retroviral (ARVs) to grow further with new product launches.
- ✓ Custom synthesis business grew 25% on deeper engagement with Aspen, South Africa and better business from other clients.
- ✓ The company filed 8 ANDAs during the quarter.
- ✓ USFDA issued 2 observations to Unit 1 and 3 in August'17, which were procedural in nature. The company has responded to the USFDA.
- ✓ The company's expansion for manufacturing 5 bn tablets is expected to be commissioned by end Q3FY18.

### Outlook & Valuation

While the impact of pricing pressure in Hep C is a cause of concern, we believe the quarter is an exception. We expect the company to benefit from business restored in both oncology and ARVs, custom synthesis and the commissioning of the formulations plant. At Rs 533, Laurus Labs trades at 15x FY19E EPS of Rs 35. We recommend investors to BUY with a long term target price of Rs 744.



## LAURUS LABS LTD.

Rs in mn	Q2FY18	Q1FY18	Q2FY17	yoy	qoq	FY17	FY16	Var %
Income from operations	5386.0	4912.2	5254.2	3%	10%	19046.5	17775.8	7%
Material Cost	2813.5	2585.2	2823.2			9967.7	10081.6	
Employee Cost	633.7	627.2	532.7			2462.3	1885.2	
Other expenses	813.2	734.7	794.9			2,540.2	2,187.0	
EBITDA	1125.7	965.1	1103.4	2%	17%	4076.4	3622.0	13%
<i>EBITDA margin</i>	<i>20.9%</i>	<i>19.6%</i>	<i>21.0%</i>			<i>21.4%</i>	<i>20.4%</i>	
Depreciation	300.8	297.9	253.3			1059.8	864.1	
Interest	195.2	191.0	246.5			999.0	1111.1	
Other Income	66.3	75.4	76.1			334.4	43.6	
Profit before tax	695.9	551.7	679.7	2%	26%	2352.0	1690.4	39%
Tax	208.5	162.7	171.4			438.6	349.0	
Share of Profit/(Loss)	0.0	0.0	0.0			-10.6	-4.0	
Profit after tax	487.5	389.1	508.3	4%	25%	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)	4.6	3.7	4.8			18.0	12.6	



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**LAURUS LABS FINANCIALS**

<b>PROFIT &amp; LOSS (Rs mn)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>CASH FLOW</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>
<b>Revenue from Operations (Net)</b>	17775.78	19046.47	23254.3	30226.55	<b>Profit After Tax</b>	1337.4	1902.8	2539.2	3740.3
Raw Material Costs	10081.6	9967.7	12208.5	15868.9	Add: Depreciation	864.1	1059.8	1174.3	1343.0
<b>Gross Profit</b>	<b>7694.2</b>	<b>9078.8</b>	<b>11045.8</b>	<b>14357.6</b>	<b>Cash Profits</b>	<b>2201.4</b>	<b>2962.6</b>	<b>3713.5</b>	<b>5083.4</b>
<i>Gross Margins</i>	43.3%	47.7%	47.5%	47.5%	<b>(Increase)/ Decrease in-</b>				
Employee Benefits Expenses	1,885.2	2,462.3	2,954.8	3,545.7	Trade receivables	-1,597.9	-1,227.5	-1,332.1	-1,273.1
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	1,162.7	1,813.6	Short Term Loans & Advances	-268.0	-80.0	-109.2	-180.9
Operating and Selling Expenses	633.5	792.6	951.1	1,093.7	Other current assets	-268.0	-80.0	-109.2	-180.9
<b>EBITDA</b>	<b>3622.0</b>	<b>4076.4</b>	<b>5102.4</b>	<b>6986.0</b>	Inventories	-116.0	-219.5	-1,156.3	-1,741.3
Depreciation and Amortisation	864.1	1059.8	1174.3	1343.0	Trade payables	168.0	154.9	546.6	822.3
<b>EBIT</b>	<b>2757.9</b>	<b>3016.5</b>	<b>3928.1</b>	<b>5643.0</b>	Short term provisions	-15.5	24.7	22.4	37.1
Finance Expenses	1,111.1	999.0	828.7	828.7	Other current liabilities	-1,161.9	413.1	129.2	214.0
Other Income	43.6	334.4	133.8	120.4	Other Non Current Assets	-450.4	87.4	-50.3	-55.3
<b>Profit Before Tax</b>	<b>1690.4</b>	<b>2352.0</b>	<b>3233.2</b>	<b>4934.6</b>	Other Long Term Liabilities	-281.9	466.1	63.1	69.4
<b>Tax Expense</b>	<b>349.0</b>	<b>438.6</b>	<b>679.0</b>	<b>1184.3</b>	Long Term Provision	16.5	24.0	20.3	33.6
Share of results of associate	-4.02	-10.55	-15	-10	<b>Working Capital change</b>	<b>-2,789.6</b>	<b>-534.6</b>	<b>-2,013.4</b>	<b>-2,300.5</b>
<b>Profit for the year</b>	<b>1337.4</b>	<b>1902.8</b>	<b>2539.2</b>	<b>3740.3</b>	<b>Net Cash generated from operations</b>	<b>979.0</b>	<b>2,711.9</b>	<b>1,959.6</b>	<b>3,129.2</b>
					<b>Net Cash from Investing activities</b>	<b>-2667.0</b>	<b>-3854.4</b>	<b>-2172.6</b>	<b>-2505.5</b>
					<b>Net Cash (used in)/ generated from financing activities</b>	<b>1,386.9</b>	<b>959.3</b>	<b>352.5</b>	<b>-309.3</b>
<b>BALANCE SHEET</b>					<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>-301.1</b>	<b>-183.1</b>	<b>139.5</b>	<b>314.3</b>
Share Capital	157.7	1057.6	1057.6	1057.6	<b>Cash &amp; Cash equivalents at the beginning of the year</b>	<b>588.9</b>	<b>287.7</b>	<b>104.6</b>	<b>244.2</b>
Reserves & Surplus	7,744.2	12,246.9	14,538.6	17,969.6	<b>Cash &amp; Cash equivalents at the end of the year</b>	<b>287.7</b>	<b>104.7</b>	<b>244.2</b>	<b>558.5</b>
<b>Net Worth</b>	<b>7901.9</b>	<b>13304.5</b>	<b>15596.2</b>	<b>19027.2</b>					
Preference Shares	666.1	0.0	0.0	0.0	<b>Ratios</b>				
Long term Borrowings	4,597.4	1,245.6	1,845.6	1,845.6	OPM	20.4%	21.4%	21.9%	23.1%
Short term Borrowings	4,814.2	6,441.7	6,441.7	6,441.7	NPM	7.5%	10.0%	10.9%	12.4%
<b>TOTAL DEBT</b>	<b>9,411.6</b>	<b>7,687.3</b>	<b>8,287.3</b>	<b>8,287.3</b>	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	<b>Growth Ratios (%)</b>				
<b>CAPITAL EMPLOYED</b>	<b>18144.2</b>	<b>21622.5</b>	<b>24577.3</b>	<b>28077.7</b>	Net Sales	34%	7%	22%	30%
Tangible assets - Gross	12,860.0	15,896.9	17,396.9	19,896.9	Operating Profit	81%	13%	25%	37%
Acc. Depreciation	2,713.6	3,773.4	4,947.7	6,290.8	PAT	95%	42%	33%	47%
<b>Net Block - Tangibles</b>	<b>10,146.4</b>	<b>12,123.4</b>	<b>12,449.1</b>	<b>13,606.1</b>					
<b>Net Block - Intangibles</b>	<b>63.9</b>	<b>78.5</b>	<b>82.5</b>	<b>86.6</b>	<b>Per Share (Rs.)</b>				
Capital Work in Progress	696.0	1432.6	2000.0	1000.0	<b>Net Earnings (EPS) - Diluted</b>	12.65	17.99	24.01	35.37
<b>Total Fixed Assets</b>	<b>10,906.3</b>	<b>13,634.5</b>	<b>14,531.6</b>	<b>14,692.7</b>	Cash Earnings (CPS) - Diluted	20.82	28.01	35.11	48.07
<b>Goodwill</b>	<b>0.00</b>	<b>97.39</b>	<b>97.39</b>	<b>97.39</b>	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	147.47	179.92
Other non-current assets	1146.3	1214.4	1265.9	1322.6	Free Cash Flow	-87.4	19.5	4.2	5.8
Current Investments	0.0	34.1	134.1	1134.1					
<b>Current assets</b>					<b>Valuation Ratios</b>				
Inventories	4,870.9	5,090.5	6,246.8	7,988.1	<b>P/E(x)</b>	6.3	29.6	22.2	15.1
Trade receivables	4,448.6	5,676.1	7,008.1	8,281.2	<b>P/B(x)</b>	7.1	4.2	3.6	2.9
<b>Cash and bank balance</b>	<b>287.7</b>	<b>104.6</b>	<b>244.2</b>	<b>558.5</b>	<b>EV/EBIDTA(x)</b>	18.1	15.7	12.6	9.2
<b>Total Loans &amp; Advances</b>	<b>90.7</b>	<b>188.5</b>	<b>226.2</b>	<b>271.4</b>	<b>EV/SALES (x)</b>	3.7	3.4	2.8	2.1
Other current assets	414.3	494.3	603.5	784.4					
<b>Total Current assets</b>	<b>9,824.5</b>	<b>11,449.2</b>	<b>14,084.6</b>	<b>17,325.1</b>	<b>FCF Yield(%)</b>	-2%	4%	1%	1%
<b>Current liabilities</b>									
Trade payables	2476.1	2631.0	3177.6	3999.8	<b>Return Ratios (%)</b>				
Other current liabilities	1470.7	2087.7	2367.2	2746.6	<b>ROE</b>	17%	14%	16%	20%
Short term provisions	76.5	101.2	123.6	160.6	<b>ROCE</b>	15%	15%	17%	21%
Long term provisions	67.7	91.7	112.0	145.6					
<b>Total Current Liabilities</b>	<b>4091.0</b>	<b>4911.7</b>	<b>5780.3</b>	<b>7052.6</b>					
Working Capital	5733.5	6537.6	8304.2	10272.5					
<b>CAPITAL DEPLOYED</b>	<b>18,144.2</b>	<b>21,622.5</b>	<b>24,577.3</b>	<b>28,077.7</b>					



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