



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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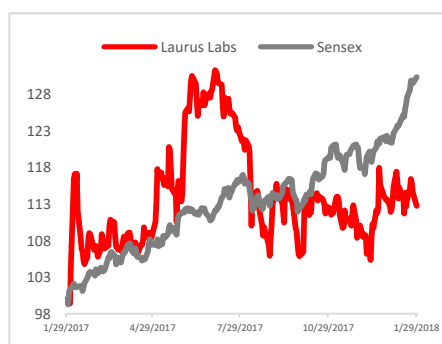
BUY

Current Price	524
Target Price	744
Upside/Downside	42%
52 Week Range	634/453

Key Share Data

Market Cap (Rs.bn)	54.74
Market Cap (US\$ mn)	855.28
No of o/s shares (mn)	105.8
Face Value	10
Monthly Avg.vol (BSE+NSE) Nos'000	107
BSE Code	540222
NSE Code	LAURUSLABS
Bloomberg	LAURUS:IN

Price performance



% Shareholding	Dec-17	Sep-17
Promoters	30.57	30.56
FII	10.45	9.76
DII	40.15	42.08
Others	18.83	17.6
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	20374.8	7%	4189.8	20.6%	1830.9	-4%	17.27	30.4	12%	13%
FY19E	27571.1	35%	6106.5	22.1%	3029.0	65%	28.57	18.4	17%	17%
FY20E	36148.8	31%	8765.1	24.2%	4825.6	59%	45.51	11.5	22%	23%

Laurus Labs Q3FY18 results were below expectations. Pricing pressure in Hep C and lower ARV volumes degrew revenues and thereby profits.

Pricing pressure in Hep C gives flat performance

Revenues degrew 5% to Rs 4789 mn, due to 5% de-growth in APIs. EBITDA degrew 13% to Rs 972 mn. EBITDA margins were 190 bps lower at 20.3%. PAT de-grew 22% to Rs 348 mn in view of higher taxes compared to Q3FY17. EPS for the quarter was at Rs 3.29.

Key takeaways from the concall

- ✓ Oncology APIs grew 127% to Rs 431 mn,
- ✓ Hep C degrew 57% to Rs 240 mn due to severe pricing pressure as some of the formulations came under price control (DPCO).
- ✓ ARVs de-grew 9% to Rs 3208 mn due to delay in order from one customer. For 9MFY18, ARVs grew 4% to Rs 9722 mn.
- ✓ The custom synthesis business grew 16% to Rs 383 mn with the commencement of supplies to Aspen Pharma, South Africa.
- ✓ During the quarter, Laurus filed 2 dossiers in Europe, and one each in South Africa, Canada and the WHO.
- ✓ Laurus is expanding its ARVs capacity by 500 tonnes for Lamivudine, which will be commercialized by July'19.

Outlook & Valuation

De-growth in ARVs and Hep C came as a setback to Laurus Labs. We believe the setback is temporary in nature given its portfolio in ARVs and the increase in number of approvals in ARVs over the last few months. We are positive on the business developments at Laurus Labs relating to USFDA EIR to Unit 1 & 3, tentative approval to Tenofovir, 8 ANDA filings and the commissioning of its formulation plant and tie ups for the same.

At Rs 524, Laurus Labs trades at 12x FY20E EPS of Rs 45.5. We recommend investors to BUY Laurus Labs with a target price of Rs 744.



LAURUS LABS LTD.

Rs in mn	Q3FY18	Q2FY18	Q3FY17	yoy	qoq	FY17	FY16	Var %
Income from operations	4789.3	5386.1	5097.3	-6%	11%	19046.5	17775.8	7%
Material Cost	2457.5	2813.5	2849.1			9967.7	10081.6	
Employee Cost	647.3	633.7	549.0			2462.3	1885.2	
Other expenses	811.1	813.2	705.8			2,540.2	2,187.0	
EBITDA	873.5	1125.8	993.4	12%	22%	4076.4	3622.0	13%
<i>EBITDA margin</i>	<i>18.2%</i>	<i>20.9%</i>	<i>19.5%</i>			<i>21.4%</i>	<i>20.4%</i>	
Depreciation	309.8	300.8	274.4			1059.8	864.1	
Interest	177.6	195.2	308.2			999.0	1111.1	
Other Income	99.4	66.3	129.7			334.4	43.6	
Profit before tax	485.5	696.0	540.5	10%	30%	2352.0	1690.4	39%
Tax	136.8	208.5	94.7			438.6	349.0	
Share of Profit/(Loss)	0.0	0.0	0.0			-10.6	-4.0	
Profit after tax	348.7	487.6	445.8	22%	28%	1902.8	1337.4	42%
Equity	1060.3	1057.6	1057.6			1057.6	157.7	
Number of shares	106.0	105.8	105.8			105.8	15.8	
EPS - Diluted(Rs)	3.3	4.6	4.2			18.0	12.6	



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LAURUS LABS FINANCIALS

PROFIT & LOSS (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E	CASH FLOW	FY16	FY17	FY18E	FY19E	FY20E
Revenue from Operations (Net)	17775.8	19046.5	20374.8	27571.1	36148.8	Profit After Tax	1337.4	1902.8	1830.9	3029.0	4825.6
Raw Material Costs	10081.6	9967.7	10493.0	14337.0	18797.4	Add: Depreciation	864.1	1059.8	1174.3	1343.0	1478.0
Gross Profit	7694.2	9078.8	9881.8	13234.1	17351.4	Cash Profits	2201.4	2962.6	3005.2	4372.1	6303.6
Gross Margins	43.3%	47.7%	48.5%	48.0%	48.0%	(Increase)/ Decrease in:-					
Employee Benefits Expenses	1,885.2	2,462.3	2,831.7	3,398.0	4,077.6	Trade receivables	-1,597.9	-1,227.5	-464.3	-1,413.4	-1,557.8
Other Manufacturing Expenses	757.4	795.3	851.0	936.0	1,029.6	Long Term Loans & Advances	1,185.6	-97.7	-37.7	-45.2	-54.3
Research & Development Expenses	796.2	952.3	1,018.7	1,654.3	2,168.9	Short Term Loans & Advances	-268.0	-80.0	-34.5	-186.7	-222.6
Operating and Selling Expenses	633.5	792.6	990.7	1,139.3	1,310.2	Other current assets	-268.0	-80.0	-34.5	-186.7	-222.6
EBITDA	3622.0	4076.4	4189.8	6106.5	8765.1	Inventories	-116.0	-219.5	-279.6	-1,847.5	-2,141.5
Depreciation and Amortisation	864.1	1059.8	1174.3	1343.0	1478.0	Trade payables	168.0	154.9	100.1	882.6	1,021.3
EBIT	2757.9	3016.5	3015.5	4763.5	7287.0	Short term provisions	-15.5	24.7	7.1	38.2	45.6
Finance Expenses	1,111.1	999.0	787.5	840.0	840.0	Other current liabilities	-1,161.9	413.1	40.8	220.9	263.3
Other Income	43.6	334.4	315.0	283.5	255.2	Other Non Current Assets	-450.4	87.4	-50.3	-55.3	-60.8
Profit Before Tax	1690.4	2352.0	2543.0	4207.0	6702.2	Other Long Term Liabilities	-281.9	466.1	63.1	69.4	76.3
Tax Expense	349.0	438.6	712.0	1178.0	1876.6	Long Term Provision	16.5	24.0	6.4	34.7	41.3
Share of results of associate	-4.02	-10.55	0	0	0	Working Capital change	-2,789.6	-534.6	-683.4	-2,489.1	-2,811.8
Profit for the year	1337.4	1902.8	1830.9	3029.0	4825.6	Net Cash generated from operations	979.0	2,711.9	2,506.6	2,235.0	3,896.3
						Net Cash from Investing activities	-2667.0	-3854.4	-2172.6	-2505.5	-4405.9
						Net Cash (used in)/ generated from financing activities	1,386.9	959.3	2,567.3	-310.1	-372.2
BALANCE SHEET						Net increase/(decrease) in cash and cash equivalents	-301.1	-183.1	2,901.3	-580.6	-881.7
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	104.6	3005.9	2425.3
Reserves & Surplus	7,744.2	12,246.9	13,829.7	16,548.6	21,002.0	Cash & Cash equivalents at the end of the year	287.7	104.7	3005.9	2425.3	1543.5
Net Worth	7901.9	13304.5	14890.0	17608.9	22062.3						
Preference Shares	666.1	0.0	0.0	0.0	0.0	Ratios					
Long term Borrowings	4,597.4	1,245.6	2,500.0	2,500.0	2,500.0	OPM	20.4%	21.4%	20.6%	22.1%	24.2%
Short term Borrowings	4,814.2	6,441.7	8,000.0	8,000.0	8,000.0	NPM	7.5%	10.0%	9.0%	11.0%	13.3%
TOTAL DEBT	9,411.6	7,687.3	10,500.0	10,500.0	10,500.0	Tax rate	21%	19%	28%	28%	28%
Other Long-term liabilities	164.7	630.7	693.8	763.2	839.5						
Deferred tax Liabilities (Net)	0.0	0.0	0.0	0.0	0.0	Growth Ratios (%)					
CAPITAL EMPLOYED	18144.2	21622.5	26083.8	28872.1	33401.8	Net Sales	34%	7%	7%	35%	31%
Tangible assets - Gross	12,860.0	15,896.9	17,396.9	19,896.9	21,896.9	Operating Profit	81%	13%	3%	46%	44%
Acc. Depreciation	2,713.6	3,773.4	4,947.7	6,290.8	7,768.8	PAT	95%	42%	-4%	65%	59%
Net Block - Tangibles	10,146.4	12,123.4	12,449.1	13,606.1	14,128.1						
Net Block - Intangibles	63.9	78.5	82.5	86.6	90.9	Per Share (Rs.)					
Capital Work in Progress	696.0	1432.6	2000.0	1000.0	1000.0	Net Earnings (EPS) - Diluted	12.6	18.0	17.3	28.6	45.5
Total Fixed Assets	10,906.3	13,634.5	14,531.6	14,692.7	15,219.0	Cash Earnings (CPS) - Diluted	20.8	28.0	28.4	41.3	59.6
Goodwill	0.00	97.39	97.39	97.39	97.39	Number of shares	15.8	105.8	106.0	106.0	106.0
Non-current Investment	70.5	0.0	0.0	0.0	0.0	Book Value	501.2	125.8	140.4	166.1	208.1
Other non-current assets	1146.3	1214.4	1265.9	1322.6	1385.0	Free Cash Flow	-87.4	19.1	8.4	-12.1	-4.9
Current Investments	0.0	34.1	134.1	1134.1	3534.1						
Current assets						Valuation Ratios					
Inventories	4,870.9	5,090.5	5,370.0	7,217.6	9,359.1	P/E(x)	6.2	29.2	30.4	18.4	11.5
Trade receivables	4,448.6	5,676.1	6,140.4	7,553.7	9,111.5	P/B(x)	7.0	4.1	3.7	3.1	2.5
Cash and bank balance	287.7	104.6	3,005.9	2,425.3	1,543.5	EV/EBIDTA(x)	17.8	15.5	15.0	10.4	7.4
Total Loans & Advances	90.7	188.5	226.2	271.4	325.7	EV/SALES (x)	3.6	3.3	3.1	2.3	1.8
Other current assets	414.3	494.3	528.7	715.5	938.1						
Total Current assets	9,824.5	11,449.2	12,265.3	15,758.2	19,734.3	FCF Yield(%)	-2%	4%	2%	-2%	-1%
Current liabilities											
Trade payables	2476.1	2631.0	2731.1	3613.7	4635.0	Return Ratios (%)					
Other current liabilities	1470.7	2087.7	2278.8	2665.1	3110.2	ROE	17%	14%	12%	17%	22%
Short term provisions	76.5	101.2	108.3	146.5	192.1	ROCE	15%	15%	13%	17%	23%
Long term provisions	67.7	91.7	98.1	132.8	174.1						
Total Current Liabilities	4091.0	4911.7	5216.3	6558.1	8111.4						
Working Capital	5733.5	6537.6	7049.0	9200.1	11622.9						
CAPITAL DEPLOYED	18,144.2	21,622.5	26,083.8	28,872.1	33,401.8						



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