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STOCK BROKING PVT. LTD.

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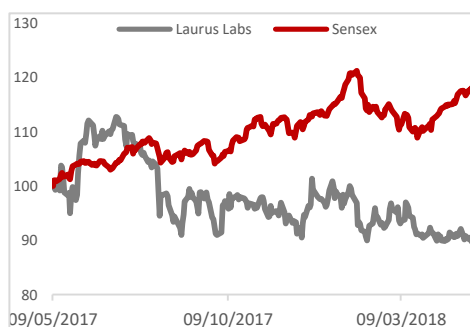
BUY

Current Price	488
Target Price	654
Upside/Downside	34%
52 Week Range	634/480

Key Share Data

Market Cap (Rs.bn)	51.6
Market Cap (US\$ mn)	765.71
No of o/s shares (mn)	105.8
Face Value	10
Monthly Avg.vol (BSE+NSE) Nos'000	145
BSE Code	540222
NSE Code	LAURUSLABS
Bloomberg	LAURUS:IN

Price performance



% Shareholding	Mar-18	Dec-17
Promoters	30.6	30.57
FII	7.8	10.45
DII	41.5	40.15
Others	20.1	18.83
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	5.8	17%	15%
FY17	19046.5	7%	4076.4	21.4%	1902.8	42%	17.99	27.1	14%	15%
FY18	20690.0	9%	4133.2	20.0%	1676.1	-12%	15.81	30.9	11%	13%
FY19E	25842.4	25%	5311.2	20.6%	2369.9	41%	22.35	21.8	14%	14%
FY20E	32807.1	27%	7254.4	22.1%	3605.3	52%	34.00	14.4	18%	19%

Laurus Labs Q4FY18 results were better than expectations. . The price erosion in Hep C business which was a cause for concern, marginally recovered qoq. The robust growth in ARVs, oncology custom synthesis and ingredients helped in restoring profitability. The company commissioned its Formulations plant during the quarter.

Robust revenue growth, qoq recovery in Hep C improves performance

Revenues grew 18% yoy (17% qoq) to Rs 5602 mn. While API business grew 16% to Rs 4930 mn, custom synthesis increased 70% on a low base to Rs 448 mn and ingredients grew 35% to Rs 224 mn.

EBITDA was 1% lower yoy (+33% qoq) at Rs 1169 mn due to increased employee costs (30%) in view of employee addition and opex of the new plant. EBITDA margins were 410 bps lower (+270 bps qoq) at 20.9% in view of higher ARV sales.

PAT was -39% yoy (+29% qoq) at Rs 450.8 mn due to higher taxes. EPS for the quarter was at Rs 4.25.

Key takeaways from the concall

- ✓ Oncology APIs grew 54% to Rs 392 mn.
- ✓ Hep C degrew 20% yoy (+64% qoq) to Rs 392 mn.
- ✓ ARVs grew 29% to Rs 3698 mn.
- ✓ During the quarter, Laurus filed 9 ANDAs, 1 NDA for US, 2 dossiers in Europe, 3 dossiers with WHO, 2 in South Africa and 15 in ROW.
- ✓ The company expects to incur a capex of Rs 2000 mn in FY19 towards the expansion of its API facilities and debottlenecking of the formulations plant.
- ✓ Laurus expects 3 approvals from USFDA during FY19.

Outlook & Valuation

We are positive on the developments at Laurus Labs. The commissioning of FDF plant and launch of Tenofovir in US and Canada marks a new beginning to its business. New approvals and supplies to US, as well as scale up in custom synthesis will help improve profitability and earnings. We have revised our estimates in view of the price erosion in Hep C.

At Rs 488, Laurus Labs trades at 14x FY20E EPS of Rs 34. We recommend investors to BUY Laurus Labs with a long term target price of Rs 654.



Rs in mn	Q4FY18	Q3FY18	Q4FY17	yoy	qoq	FY18	FY17	Var %
Income from operations	5602.4	4789.3	4735.2	18%	17%	20690.0	19046.5	9%
Material Cost	2909.2	2457.5	2253.7			10765.4	9967.7	
Employee Cost	672.3	647.3	589.3			2580.5	2462.3	
Other expenses	852.1	811.1	707.5			3,211.0	2,540.2	
EBITDA	1168.8	873.5	1184.8	-1%	34%	4133.2	4076.4	1%
<i>EBITDA margin</i>	<i>20.9%</i>	<i>18.2%</i>	<i>25.0%</i>			<i>20.0%</i>	<i>21.4%</i>	
Depreciation	346.1	309.8	266.9			1254.5	1059.8	
Interest	232.6	177.6	148.4			796.4	999.0	
Other Income	50.8	99.4	89.3			291.9	334.4	
Profit before tax	640.9	485.5	858.9	25%	32%	2374.2	2352.0	1%
Tax	190.1	136.8	118.3			698.1	438.6	
Share of Profit/(Loss)	0.0	0.0	0.0			0.0	-10.6	
Profit after tax	450.8	348.7	740.6	39%	29%	1676.1	1902.8	12%
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)	4.3	3.3	7.0			15.8	18.0	



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LAURUS LABS FINANCIALS

PROFIT & LOSS (Rs mn)	FY16	FY17	FY18	FY19E	FY20E	CASH FLOW	FY16	FY17	FY18E	FY19E	FY20E
Revenue from Operations (Net)	17775.8	19046.5	20690.0	25842.4	32807.1	Profit After Tax	1337.4	1902.8	1676.1	2369.9	3605.3
Raw Material Costs	10081.6	9967.7	10765.4	13308.9	16731.6	Add: Depreciation	864.1	1059.8	1254.5	1496.3	1631.3
Gross Profit	7694.2	9078.8	9924.7	12533.6	16075.5	Cash Profits	2201.4	2962.6	2930.6	3866.1	5236.6
<i>Gross Margins</i>	43.3%	47.7%	48.0%	48.5%	49.0%	(Increase)/ Decrease in:-					
Employee Benefits Expenses	1,885.2	2,462.3	2,580.5	2,967.5	3,561.0	Trade receivables	-1,597.9	-1,227.5	-29.8	-1,374.2	-1,908.1
Other Manufacturing Expenses	757.4	781.1	805.5	829.7	854.6	Long Term Loans & Advances	1,185.6	88.0	-5.5	-1.7	-2.0
Research & Development Expenses	796.2	1,402.0	1,196.0	1,550.5	1,968.4	Short Term Loans & Advances	-268.0	118.8	-382.8	-168.9	-228.3
Operating and Selling Expenses	633.5	357.1	1,209.5	1,874.7	2,437.0	Other current assets	-268.0	118.8	-382.8	-168.9	-228.3
EBITDA	3622.0	4076.4	4133.2	5311.2	7254.4	Inventories	-116.0	-219.5	-757.4	-1,444.7	-1,875.5
Depreciation and Amortisation	864.1	1059.8	1254.5	1496.3	1631.3	Trade payables	168.0	154.9	492.3	705.3	984.6
EBIT	2757.9	3016.5	2878.7	3814.9	5623.1	Short term provisions	-15.5	-29.5	-2.3	11.1	15.1
Finance Expenses	1,111.1	999.0	796.4	786.1	852.1	Other current liabilities	-1,161.9	413.1	253.0	208.6	282.0
Other Income	43.6	334.4	291.9	262.7	236.5	Other Non Current Assets	-450.4	140.7	9.4	-44.0	-48.4
Profit Before Tax	1690.4	2352.0	2374.2	3291.5	5007.4	Other Long Term Liabilities	-281.9	466.1	16.3	64.7	71.2
Tax Expense	349.0	438.6	698.1	921.6	1402.1	Long Term Provision	16.5	78.2	62.5	51.9	70.1
Share of results of associate	-4.02	-10.55	0	0	0	Working Capital change	-2,789.6	102.1	-727.1	-2,160.8	-2,867.6
Profit for the year	1337.4	1902.8	1676.1	2369.9	3605.3	Net Cash generated from operations	979.0	3,149.8	2,561.3	2,022.1	2,759.9
						Net Cash from Investing activities	-2667.0	-3854.4	-3959.6	-3272.8	-2304.9
						Net Cash (used in)/ generated from financing activities	1,386.9	959.3	1,330.1	1,401.9	-372.2
BALANCE SHEET						Net increase/(decrease) in cash and cash equivalents	-301.1	254.8	-68.2	151.2	82.9
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	137.4
Reserves & Surplus	7,744.2	12,246.9	13,766.1	15,887.8	19,121.0	Cash & Cash equivalents at the end of the year	287.7	542.5	-27.3	181.8	220.2
Net Worth	7901.9	13304.5	14826.4	16948.1	20181.3	Ratios					
Preference Shares	666.1	0.0	0.0	0.0	0.0	OPM	20.4%	21.4%	20.0%	20.6%	22.1%
Long term Borrowings	4,597.4	1,245.6	1,416.6	3,066.6	3,066.6	NPM	7.5%	10.0%	8.1%	9.2%	11.0%
Short term Borrowings	4,814.2	6,441.7	7,585.2	7,585.2	7,585.2	Tax rate	21%	19%	29%	28%	28%
TOTAL DEBT	9,411.6	7,687.3	9,001.8	10,651.8	10,651.8	Growth Ratios (%)					
Other Long-term liabilities	164.7	630.7	647.0	711.7	782.8	Net Sales	34%	7%	9%	25%	27%
Deferred tax Liabilities (Net)	0.0	0.0	0.0	0.0	0.0	Operating Profit	81%	13%	1%	28%	37%
CAPITAL EMPLOYED	18144.2	21622.5	24475.1	28311.6	31615.9	PAT	95%	42%	-12%	41%	52%
Tangible assets - Gross	12,860.0	15,896.9	19,667.0	22,167.0	24,167.0	Per Share (Rs.)					
Acc. Depreciation	2,713.6	3,773.4	5,028.0	6,524.2	8,155.5	Net Earnings (EPS) - Diluted	12.6	18.0	15.8	22.4	34.0
Net Block - Tangibles	10,146.4	12,123.4	14,639.0	15,642.7	16,011.4	Cash Earnings (CPS) - Diluted	20.8	28.0	27.7	36.6	49.5
Net Block - Intangibles	63.9	78.5	71.6	75.2	78.9	Number of shares	15.8	105.8	106.0	106.0	106.0
Capital Work in Progress	696.0	1432.6	1631.8	1000.0	1000.0	Book Value	501.2	125.8	139.8	159.8	190.3
Total Fixed Assets	10,906.3	13,634.5	16,342.4	16,717.9	17,090.4	Free Cash Flow	-87.4	18.4	10.3	-18.3	3.7
Goodwill	0.00	97.39	97.39	97.39	97.39	Valuation Ratios					
Non-current Investment	70.5	34.1	34.1	34.1	34.1	P/E(x)	5.8	27.1	30.9	21.8	14.4
Other non-current assets	1146.3	1161.0	978.9	1023.9	1073.4	P/B(x)	6.5	3.9	3.5	3.0	2.5
Current Investments	0.0	0.0	0.0	1400.0	1700.0	EV/EBIDTA(x)	16.8	14.5	14.7	11.7	8.6
Current assets						EV/SALES (x)	3.4	3.1	2.9	2.4	1.9
Inventories	4,870.9	5,090.5	5,847.8	7,292.5	9,168.0	FCF Yield(%)	-3%	4%	2%	-4%	1%
Trade receivables	4,448.6	5,676.1	5,705.9	7,080.1	8,988.2	Return Ratios (%)					
Cash and bank balance	287.7	40.9	30.6	137.4	171.4	ROE	17%	14%	11%	14%	18%
Total Loans & Advances	90.7	2.8	8.3	9.9	11.9	ROCE	15%	15%	13%	14%	19%
Other current assets	414.3	295.4	678.2	847.1	1,075.4						
Total Current assets	9,824.5	11,064.7	12,240.2	15,229.7	19,243.6						
Current liabilities											
Trade payables	2476.1	2631.0	3123.3	3828.6	4813.2						
Other current liabilities	1470.7	2087.7	2315.7	2672.1	3116.6						
Short term provisions	76.5	47.1	44.7	55.9	70.9						
Long term provisions	67.7	145.9	208.4	260.3	330.4						
Total Current Liabilities	4091.0	4911.7	5692.1	6816.8	8331.2						
Working Capital	5733.5	6153.1	6548.1	8412.9	10912.4						
CAPITAL DEPLOYED	18,144.2	21,121.0	24,031.4	27,823.5	31,079.0						



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