



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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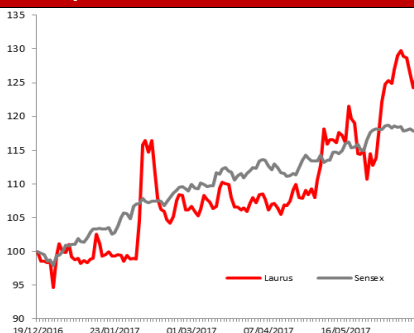
BUY

Current Price	550
Target Price	744
Upside/Downside	35%
52 Week Range	634/453

Key Share Data

Market Cap (Rs.bn)	58.2
Market Cap (US\$ mn)	907.85
No of o/s shares (mn)	105.8
Face Value	10
Monthly Avg.vol (BSE+NSE) Nos'000	126
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	6.5	17%	15%
FY17	19046.5	7%	4076.4	21.4%	1902.8	42%	17.99	30.6	14%	15%
FY18E	23254.3	22%	5102.4	21.9%	2539.2	33%	24.01	22.9	16%	17%
FY19E	30226.6	30%	6986.0	23.1%	3740.3	47%	35.37	15.6	20%	21%

We met the management of Laurus Labs.

Key takeaways from our meeting are as follows:

- ✓ Laurus Labs received two observations for Units 1 and 3 in August'17. The observations have no material impact on the business of the company. Laurus Labs has replied to the USFDA and expects to receive an Establishment Inspection Report (EIR) over the next 4-5 months.
- ✓ The company's oncology business, which de-grew 24% in FY17 has now been restored due to replenishment of orders from an existing customer.
- ✓ Hepatitis C grew 11% in Q1FY18, due to GST impact on India. Laurus Labs has launched Lamivudine, a new product in Hepatitis C during the current quarter.
- ✓ The company's anti retrovirals (ARVs) business, which de-grew 3% over the last two quarters, has now picked up due to revival of orders from an old customer.
- ✓ Laurus Labs has received the target date of November'17 for its ANDAs filed by its partner Aspen Pharma, South Africa.
- ✓ Formulations expansion from 1 bn to 5 bn tablets will be commissioned by Q3FY18. Business from formulations to commence after USFDA approval to ANDAs.

Outlook & Valuation

We are positive on the developments at Laurus Labs. 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. USFDA approval to its ANDAs will help scale up formulations business and improve profitability. At Rs 550, Laurus Labs trades at 16x FY19E EPS of Rs 35.37. We recommend investors to BUY Laurus Labs with a target price of Rs 744.



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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	23254.3	30226.55	Profit After Tax	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
Gross Profit	7694.2	9078.8	11045.8	14357.6	Cash Profits	2201.4	2962.6	3713.5	5083.4
<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	-1,332.1	-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
EBITDA	3622.0	4076.4	5102.4	6986.0	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
EBIT	2757.9	3016.5	3928.1	5643.0	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
Profit Before Tax	1690.4	2352.0	3233.2	4934.6	Other Long Term Liabilities	-281.9	466.1	63.1	69.4
Tax Expense	349.0	438.6	679.0	1184.3	Long Term Provision	16.5	24.0	20.3	33.6
Share of results of associate	-4.02	-10.55	-15	-10	Working Capital change	-2,789.6	-534.6	-2,013.4	-2,300.5
Profit for the year	1337.4	1902.8	2539.2	3740.3	Net Cash generated from operations	979.0	2,711.9	1,959.6	3,129.2
					Net Cash from Investing activities	-2667.0	-3854.4	-2172.6	-2505.5
					Net Cash (used in)/ generated from financing activities	1,386.9	959.3	352.5	-309.3
BALANCE SHEET					Net increase/(decrease) in cash and cash equivalents	-301.1	-183.1	139.5	314.3
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	244.2
Reserves & Surplus	7,744.2	12,246.9	14,538.6	17,969.6	Cash & Cash equivalents at the end of the year	287.7	104.7	244.2	558.5
Net Worth	7901.9	13304.5	15596.2	19027.2					
Preference Shares	666.1	0.0	0.0	0.0	Ratios				
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%
TOTAL DEBT	9,411.6	7,687.3	8,287.3	8,287.3	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	24577.3	28077.7	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%
Net Block - Tangibles	10,146.4	12,123.4	12,449.1	13,606.1					
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	24.01	35.37
Total Fixed Assets	10,906.3	13,634.5	14,531.6	14,692.7	Cash Earnings (CPS) - Diluted	20.82	28.01	35.11	48.07
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	147.47	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					
Current assets					Valuation Ratios				
Inventories	4,870.9	5,090.5	6,246.8	7,988.1	P/E(x)	6.5	30.6	22.9	15.6
Trade receivables	4,448.6	5,676.1	7,008.1	8,281.2	P/B(x)	7.3	4.3	3.7	3.0
Cash and bank balance	287.7	104.6	244.2	558.5	EV/EBIDTA(x)	18.6	16.1	13.0	9.4
Total Loans & Advances	90.7	188.5	226.2	271.4	EV/SALES (x)	3.8	3.5	2.8	2.2
Other current assets	414.3	494.3	603.5	784.4					
Total Current assets	9,824.5	11,449.2	14,084.6	17,325.1	FCF Yield(%)	-2%	4%	1%	1%
Current liabilities					Return Ratios (%)				
Trade payables	2476.1	2631.0	3177.6	3999.8	ROE	17%	14%	16%	20%
Other current liabilities	1470.7	2087.7	2367.2	2746.6	ROCE	15%	15%	17%	21%
Short term provisions	76.5	101.2	123.6	160.6					
Long term provisions	67.7	91.7	112.0	145.6					
Total Current Liabilities	4091.0	4911.7	5780.3	7052.6					
Working Capital	5733.5	6537.6	8304.2	10272.5					
CAPITAL DEPLOYED	18,144.2	21,622.5	24,577.3	28,077.7					



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