

Laurus Labs

BSE SENSEX	S&P CNX
35,536	10,807
Bloomberg	LAURUS IN
Equity Shares (m)	106
M.Cap.(INRb)/(USDb)	53.0 / 0.8
52-Week Range (INR)	634 / 480
1, 6, 12 Rel. Per (%)	-8/-15/-29
Avg Val, INRm	73.0
Free float (%)	69.4

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	20.7	24.6	29.0
EBITDA	4.1	5.5	6.7
PAT	1.7	2.9	3.6
EPS (INR)	15.8	27.3	34.3
Gr. (%)	-10.9	72.1	25.8
BV/Sh (INR)	140.2	166.9	200.6
RoE (%)	11.9	17.8	18.7
RoCE (%)	9.7	12.8	13.8
P/E (x)	30.7	17.9	14.2
P/BV (x)	3.5	2.9	2.4

Estimate change

TP change

Rating change



CMP: INR488 TP: INR586 (+20%)

Buy

Growth to pick up from FY19

- Operationally in-line; PAT hit by higher interest/depreciation and tax outgo:** In 4QFY18, Laurus delivered 18.3% YoY revenue growth to INR5.6b (our estimate: INR5.4b), led by 27% YoY growth in ARV-API sales (64% of total sales), 63% YoY growth in Synthesis business (8% of total sales), and addition of formulation sales of INR140m (2.4% of total sales). Pricing pressure in Hep-C and higher fixed overheads related to recently-commissioned facilities led to 410bp YoY decline in EBITDA margin to 20.9% (our estimate: 21%). Higher depreciation, interest and tax outgo led to 39% YoY fall in PAT to INR451m (our estimate: INR528m).
- Higher base in revenue and fixed operating cost impacted FY18 performance:** After six years of strong growth, Laurus delivered its second consecutive year of moderate revenue growth (up 8.6% to INR20.7b) in FY18. Gross margin expanded 90bp to 48.6%, an all-time high. However, EBITDA margin shrank 140bp YoY to 20% due higher operating expenses related to recently commissioned facilities. Higher depreciation and tax outgo led to 12% YoY decline in PAT to INR1.7b.
- Valuation and view:** We have cut our EPS estimates by 6% to INR27.4 for FY19 and by 3% to INR34.4 for FY20 to factor lower growth in ARV-API business, slower ramp-up in formulation business and higher tax rate. Accordingly, we have revised our price target to INR586 (from INR611 earlier), valuing the stock at 18x 12M forward earnings. We remain positive on Laurus on the back of healthy demand in ARV category, forward integration to formulations for ARV as well as regulated markets, and strong momentum in Synthesis business. RoE should improve from 12% in FY18 to 19% by FY20. Reiterate **Buy**.

Consol. - Quarterly Earning Model

Y/E March	(INRm)								FY17	FY18	FY18	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		4QE		(%)
Net Sales	4,165	5,254	5,050	4,735	4,912	5,386	4,789	5,602	19,204	20,690	5,383	4.1
YoY Change (%)	NA	NA	12.2	-3.6	17.9	2.5	-5.2	18.3	104.0	7.7		
Total Expenditure	3,315	4,151	4,062	3,548	3,947	4,260	3,916	4,434	15,076	16,557	4,252	4.3
EBITDA	850	1,103	988	1,187	965	1,126	874	1,169	4,129	4,133	1,130	3.4
Margins (%)	20.4	21.0	19.6	25.1	19.6	20.9	18.2	20.9	21.5	20.0		
Depreciation	248	253	263	267	298	301	310	346	1,031	1,254	320	8.3
Interest	279	247	297	148	191	195	178	233	970	796	167	38.9
Other Income	23	76	128	89	75	66	99	51	316	292	70	-27.4
PBT before EO expense	346	680	555	861	552	696	486	641	2,443	2,374	713	-10.2
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0		
PBT	346	680	555	861	552	696	486	641	2,443	2,374	713	-10.2
Tax	80	171	81	118	163	208	137	190	451	698	185	2.5
Rate (%)	23.0	25.2	14.6	13.7	29.5	29.9	28.2	29.7	18.4	29.4		
MI & Profit/Loss of Asso. Cos.	10	0	0	0	0	0	0	0	10	0		
Reported PAT	256	508	474	743	389	488	349	451	1,982	1,676	528	-14.6
Adj PAT	256	508	474	743	389	488	349	451	1,982	1,676	528	-14.6
YoY Change (%)	NA	NA	17.9	39.0	51.7	-4.1	-26.4	-39.3	111.6	-15.4		
Margins (%)	6.2	9.7	9.4	15.7	7.9	9.1	7.3	8.0	10.3	8.1		

Tushar Manudhane – Research analyst (Tushar.Manudhane@MotilalOswal.com); +91 022 6129 1536

Rajat Srivastava – Research analyst (Rajat.Srivastava@motilaloswal.com); +91 22 3010 2511

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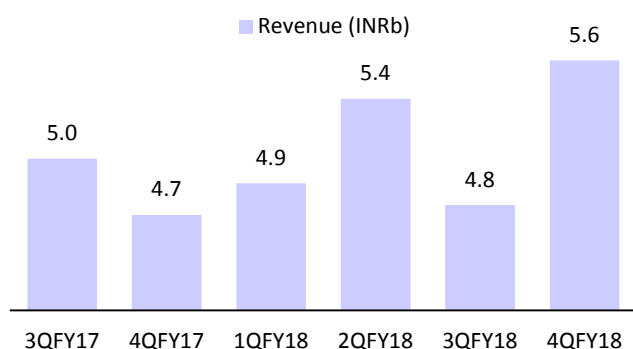
Key Concall Highlights

- For the **US formulation** business, Laurus expects to have 3 approvals in FY19 and has got TAD for all the 3 drugs. One of the three ANDAs is for Metformin and it has its TAD in Jul-18. The company is expecting revenue generation in 2HFY19 as TADs are spread over 2HFY19. Laurus has also guided for 10 ANDA filings for FY19 out of which it has already done validation for 6. Currently the company has filed 9 ANDAs and 1 NDA. 1 NDA is an ARV triple combination drug of Tenofovir, Lamivudine & Dolutegravir. Laurus has waiver for clinical trials from USFDA and WHO as clinical trials outcome is already in place for individual drugs. Aurobindo and Mylan are already having approval for similar combination.
- For the **API business**, Laurus has guided for stable revenues from Hep-C business based on volume growth for the coming quarters. Laurus had delivered 51% YoY growth in Oncology APIs revenues in FY18 and has guided for robust growth for FY19 as well on account of increase in capacity to support the rising demand. For ARV API the company sees 8%-10% growth for FY19 which is in line with the increase in the number of patients infected by HIV every year. The growth in ARV-API business would also be aided by new molecules (Lamivudine) to some extent.
- The **Synthesis** business will continue to grow at strong rate and is expected to contribute ~10% to total revenue for FY19 (~8% in FY18). The growth is coming from both Aspen and increased traction in existing contracts.
- The outlook for **Ingredients** business looks promising for FY19 even though the business saw muted growth in FY18. This is on the back of addition of new customers and increased capacity for natural extraction at unit 4.
- Laurus has maintained guidance for 6% of annual sales as R&D expenditure for FY19.
- The new formulations facility will have ~INR1b as total expenditure for FY19 with INR800m as operational expenses and INR320m as R&D cost.
- For FY19 the company has guided for INR2b capex as against INR3.5b in FY18. This will be used to increase capacity for APIs, ingredients & synthesis and formulations.
- Overall the company has guided for mid teen growth in revenues for FY19. Tax rate is expected to be higher due to lower deductions related to R&D and company is yet to accrue tax benefit from recently commissioned facilities.

ARV-API and synthesis drives revenue for the quarter

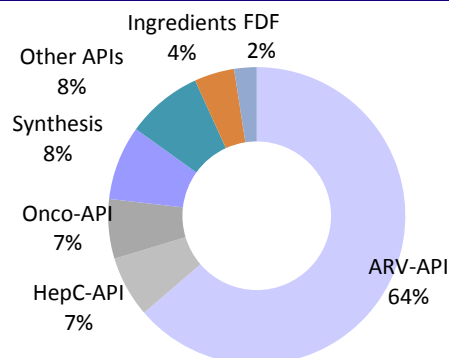
After two quarters of muted growth, Laurus reported 18.3% YoY growth in revenue to INR5.6b for Q4FY18. ARV-API sales, which is up 27% YoY, continued to drive overall growth for Laurus. ARV-API sales formed 64% of total sales. Part of the growth has been due to addition of FDF sales (INR140m), which was absent in Q4FY17. In addition, synthesis and Oncology showed strong momentum of revenue growth for the quarter, by growing at 63% and 46% YoY for the quarter. Pricing pressure in Hep C and high base in other API business dragged overall sales growth for the quarter.

Exhibit 1: Revenue up YoY as well as QoQ



Source: MOSL, Company

Exhibit 2: Revenue composition – 4QFY18

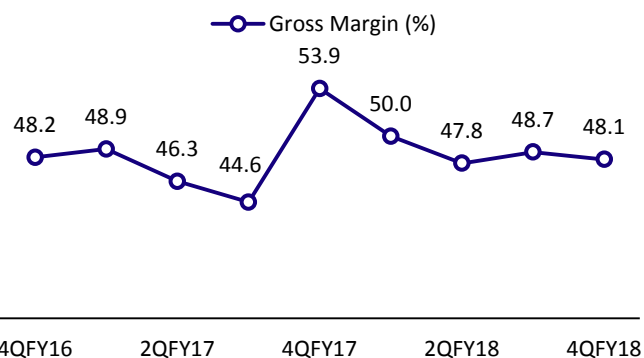


Source: MOSL, Company

Trend of gross and EBITDA margin improves for the quarter

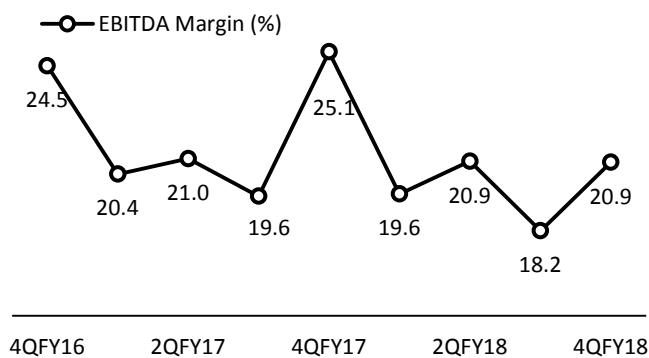
- Gross margin remained stable sequentially, while declined 600bp YoY to 48% for the quarter. This is largely due to sharp price cuts in Hep-C portfolio. In addition, Laurus incurred fixed overhead expense of INR310m related to formulation facility. There was also some fixed expense related to commissioning of Unit 5 and Unit 4. These expenses were minimal in Q4FY17. As a result, EBITDA margin contracted 410bp YoY to 20.9%. However, Laurus delivered better EBITDA margin compared to Q3FY18 EBITDA margin of 18.2%.
- R&D spent for the quarter was INR442m and formed 8% of net sales. For FY18, Laurus spent INR1.2b (5.9% of total sales) towards R&D. Laurus has guided for xx spent towards R&D for FY19.

Exhibit 3: Gross margin stable sequentially



Source: MOSL, Company

Exhibit 4: EBITDA margin down 410bp YoY



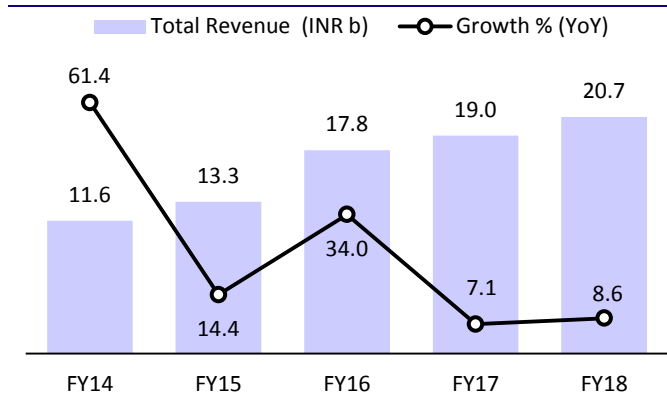
Source: MOSL, Company

Tax rate for Q4FY18 was very higher at 29.7% compared to 13.7% for Q4FY18. The reduction in EBITDA, coupled with higher interest, depreciation and higher tax output, led 39% fall in PAT to INR450m.

Hep-C business and fixed overheads drags profitability for FY18

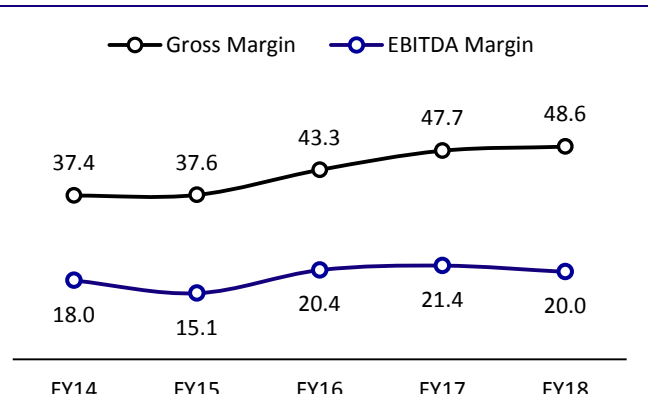
After six years of strong YoY growth, Laurus delivered second consecutive year of moderate YoY growth of 8.6% in revenue to INR20.7b for FY18. Sharp decline in Hep-C sales, down from INR2.5b to INR1.7b in FY18, impacted overall sales growth. Strong growth in synthesis, Oncology API, and healthy growth in base ARV-API business helped Laurus overcome decline in business on overall basis.

Exhibit 5: Growth rate to bottom out in FY18



Source: MOSL, Company

Exhibit 6: Increased margins on rising share of high margin products



Source: MOSL, Company

Gross margin inched up 90bp to 48.6% and is at all-time high for the company. However, EBITDA margin is down 140bp YoY to 20% due higher operating expenses related to recently commissioned facilities. Other expenses increased 31% YoY to INR3.3b and formed 16% of net sales for FY18. Higher depreciation and tax outgo led 12% YoY decline in PAT to INR1.7b.

Outlook and Valuation

- We have tweaked downwards our EPS estimates by 6% and 4% for FY19 and FY20 to INR27.4 and 34.4 to factor lower growth in ARV-API business, slower ramp-up in formulation business and higher tax rate. Accordingly, we have revised our price target to INR586 (from INR611 earlier) valuing at 18x 12M forward earnings.
- Laurus has already built asset worth INR6b and intend to do capex of INR2b in FY19. The improvement in return ratios from these assets would be visible FY20 onwards.
- We remain positive on Laurus on the back of enhanced product basket in ARV space, benefit from industry demand remaining healthy on back of addition of ~1.5m patients per year in ARV category, forward integration to formulation for ARV as well as regulated market and strong momentum in Synthesis business. Re-iterate Buy.

Exhibit 7: Change in Estimates

INR b	Old estimates		New estimates		Change (%)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Sales	25,298	29,192	24,586	28,982	(2.8)	(0.7)
EBITDA	5,743	6,802	5,514	6,674	(4.0)	(1.9)
EBITDA Margin (%)	22.7	23.3	22.4	23.0		
PAT	3,064	3,765	2,884	3,629	(5.9)	(3.6)
EPS (INR)	29	35.6	27.3	34.3	(5.9)	(3.6)
TP	613		586		(4.4)	

Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Net Sales	7,185	11,597	13,266	17,776	19,046	20,690	24,586	28,982
Change (%)	59.4	61.4	14.4	34.0	7.1	8.6	18.8	17.9
EBITDA	1,448	2,089	2,002	3,622	4,076	4,133	5,514	6,674
EBITDA Margin (%)	20.2	18.0	15.1	20.4	21.4	20.0	22.4	23.0
Depreciation	226	329	615	864	1,060	1,255	1,377	1,560
EBIT	1,222	1,760	1,387	2,758	3,016	2,879	4,137	5,114
Interest	412	639	1,062	1,111	999	796	660	682
Other Income	51	88	341	44	334	292	369	406
Extraordinary items	0	0	0	0	0	0	0	0
PBT	861	1,209	666	1,690	2,352	2,374	3,846	4,838
Tax	-21	236	-15	349	439	698	961	1,210
Tax Rate (%)	-2.5	19.6	-2.3	20.6	18.7	29.4	25.0	25.0
Min. Int. & Assoc. Share	0	0	-2	4	11	0	0	0
Reported PAT	882	972	683	1,337	1,903	1,676	2,884	3,629
Adjusted PAT	882	972	683	1,337	1,903	1,676	2,884	3,629
Change (%)	308.9	10.2	-29.7	95.7	42.3	-11.9	72.1	25.8

Balance Sheet							(INR Million)	
Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Share Capital	152	154	155	158	1,058	1,060	1,060	1,060
Reserves	1,816	2,806	6,419	7,744	12,247	13,766	16,593	20,149
Net Worth	1,968	2,960	6,574	7,902	13,304	14,826	17,653	21,210
Debt	3,545	6,053	8,877	10,943	8,417	9,649	10,649	10,649
Deferred Tax	-118	118	113	-549	-699	-529	-529	-529
Total Capital Employed	5,396	9,131	15,565	18,296	21,023	23,946	27,773	31,330
Gross Fixed Assets	3,303	6,230	9,865	11,063	14,088	17,851	20,407	22,918
Less: Acc Depreciation	948	1,240	1,855	853	1,886	3,141	4,518	6,078
Net Fixed Assets	2,356	4,989	8,010	10,210	12,202	14,711	15,889	16,840
Capital WIP	728	1,161	1,097	696	1,433	1,632	1,576	1,565
Investments	0	0	74	70	34	34	34	34
Current Assets	3,833	6,578	9,757	10,710	12,069	13,165	16,827	20,599
Inventory	1,562	3,281	4,755	4,871	5,090	5,848	6,736	7,879
Debtors	1,567	1,949	2,851	4,449	5,676	5,706	7,184	9,263
Cash & Bank	27	232	589	288	41	31	1,029	1,244
Loans & Adv, Others	678	1,117	1,562	1,103	1,262	1,580	1,878	2,214
Curr Liabs & Provns	1,521	3,601	3,373	3,390	4,812	5,692	6,650	7,806
Curr. Liabilities	1,436	3,492	3,230	3,246	4,619	5,439	6,349	7,452
Provisions	85	109	143	144	193	253	301	355
Net Current Assets	2,312	2,977	6,383	7,320	7,257	7,473	10,177	12,793
Total Assets	5,396	9,131	15,565	18,296	21,023	23,946	27,773	31,330

Financials and Valuations

Ratios								
Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Basic (INR)								
EPS	8.3	9.2	6.5	12.4	17.8	15.8	27.3	34.3
Cash EPS	10.5	12.3	12.3	20.6	27.8	27.7	40.3	49.1
Book Value	24.5	33.9	68.5	81.0	125.8	140.2	166.9	200.6
DPS	0.0	0.0	0.0	0.3	0.3	0.3	0.5	0.6
Payout (incl. Div. Tax.)	0.0	0.0	0.0	2.8	2.0	2.0	2.0	2.0
Valuation(x)								
P/E				39.1	27.4	30.7	17.9	14.2
Price / Book Value				6.0	3.9	3.5	2.9	2.4
EV/Sales				3.5	3.1	3.0	2.5	2.1
EV/EBITDA				17.0	14.7	14.8	11.1	9.1
Dividend Yield (%)				0.1	0.1	0.1	0.1	0.1
Profitability Ratios (%)								
RoE	41.2	31.5	12.6	16.9	17.4	11.9	17.8	18.7
RoCE	27.6	20.5	14.4	13.0	13.4	9.7	12.8	13.8
RoIC	36.7	25.4	14.0	14.6	13.5	9.7	13.1	14.3
Turnover Ratios (%)								
Asset Turnover (x)	1.3	1.3	0.9	1.0	0.9	0.9	0.9	0.9
Debtors (No. of Days)	80	61	78	91	109	101	107	117
Inventory (No. of Days)	79	103	131	100	98	103	100	99
Creditors (No. of Days)	67	72	64	51	50	55	53	53
Leverage Ratios (%)								
Net Debt/Equity (x)	1.1	1.4	1.0	1.2	0.6	0.6	0.5	0.4
Cash Flow Statement							(INR Million)	
Y/E Mar	2013	2014	2015	2016	2017	2018	2019E	2020E
Adjusted EBITDA	1,448	2,089	2,002	3,622	4,076	4,133	5,514	6,674
Non cash opr. exp (inc)	-20	-37	142	-29	267	0	0	0
(Inc)/Dec in Wkg. Cap.	-405	-593	-2,507	-1,544	-525	-226	-1,706	-2,401
Tax Paid	-184	-234	-168	-333	-501	-698	-961	-1,210
Other operating activities	43	-13	-116	103	3	0	0	0
CF from Op. Activity	882	1,212	-647	1,820	3,320	3,209	2,846	3,063
(Inc)/Dec in FA & CWIP	-1,186	-3,058	-3,821	-3,262	-2,774	-3,962	-2,500	-2,500
Free cash flows	-304	-1,846	-4,468	-1,443	546	-753	346	563
(Pur)/Sale of Invt	-57	-60	-148	140	-113	0	0	0
Others	59	-28	112	-34	-143	292	369	406
CF from Inv. Activity	-1,184	-3,146	-3,858	-3,156	-3,030	-3,670	-2,131	-2,094
Inc/(Dec) in Net Worth	0	1	2,944	3	2,860	3	0	0
Inc / (Dec) in Debt	669	2,503	2,745	2,063	-2,387	1,278	1,000	0
Interest Paid	-325	-474	-828	-1,033	-950	-796	-660	-682
Divd Paid (incl Tax) & Others	0	0	0	2	-60	-33	-58	-72
CF from Fin. Activity	344	2,030	4,861	1,035	-537	451	283	-754
Inc/(Dec) in Cash	42	96	356	-301	-247	-10	998	215
Add: Opening Balance	93	136	232	588	287	40	31	1,029
Closing Balance	136	232	588	287	40	31	1,029	1,244

NOTES

Explanation of Investment Rating

Investment Rating

BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Laurus Labs

No

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