



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 365	
Price Target: Rs. 450	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

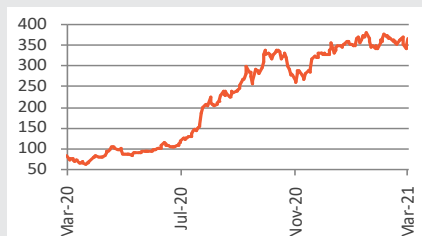
Company details

Market cap:	Rs. 19,575 cr
52-week high/low:	Rs. 386/62
NSE volume: (No of shares)	38.9 lakh
BSE code:	540222
NSE code:	LAURUSLABS
Free float: (No of shares)	38.2 cr

Shareholding (%)

Promoters	28.8
FII	22.8
DII	4.1
Others	44.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	1.7	10.6	47.5	341.3
Relative to Sensex	1.7	-1.0	15.5	297.4

Sharekhan Research, Bloomberg

Laurus Labs Limited

Growth triggers galore

Pharmaceuticals

Sharekhan code: LAURUSLABS

Company Update

Summary

- ♦ We retain a Buy recommendation on Laurus Labs Limited (Laurus) with a revised PT of Rs. 450
- ♦ Formulations business on a strong footing to grow backed by opportunities in the US while diversification to non ARV areas – anti diabetics and cardiology to fuel API growth.
- ♦ Sturdy growth prospects, visibility on earnings, healthy return ratios and low debt-equity are the key positives
- ♦ Over a long term horizon of 3-5 years, Laurus has charted out its growth trajectory encompassing all segments & management aspires grow its revenues beyond \$1bn in size

We had an interaction with Laurus Labs Limited's (Laurus) management and their commentary was positive, pointing towards a robust growth outlook. Laurus' formulations business is on a strong growth footing, backed by a higher quantum of launches in the US as well as opportunities from in-licensing of products, in addition to traction in anti-retrovirals (ARVs). The API segment is also well set to clock strong growth backed by the company's increasing focus to diversify in to new therapy areas - anti-diabetes and cardiology along with an eye to gain a foothold in the second line treatment for ARVs. Laurus' synthesis business is also expected to grow in double digits backed by client additions and increasing commercialization of products. The company has incorporated a dedicated subsidiary to house the synthesis business, which would facilitate improved focus on growth. To cater to rising demand, Laurus is expanding capacities, in two stages - the first leg of de-bottlenecking is expected to be completed by April 2021 and would add up around 15% of the capacities, while the second leg of expansion would be done by December 2021. Post this company would almost double its formulations capacities. Further, the recent foray in the biologics space through Laurus Bio augurs well and the benefits would accrue over the medium term. Considering a long term horizon of 3-5 years, Laurus has charted out its growth trajectory encompassing all segments and the management aspires to grow its revenues beyond \$1bn in size. A strong management bandwidth, investments towards upskilling manpower and building capabilities and capacities would enable it to achieve the goal. The above positives point to a strong growth trajectory for Laurus going ahead. We expect the company to report sales and adjusted profit CAGR of 32% and 73%, respectively, over FY2020-FY2023.

Our Call

Valuation: Retain Buy with revised PT of Rs. 450: The formulations business is witnessing elevated traction and the management expects to sustain the strong momentum going ahead. In addition to strong growth in the tendering business, the company is also eyeing further launches in the US and also aiming to tap opportunities from in-licensing of products. Rising demand would be supported by expanded capacities coming on-stream. The synthesis business is also on a strong footing to grow backed by client wins and expected increase in commercialization of products. Focus on non ARV segments of anti-diabetes and cardiology would support growth in the API segment. The recent foray in the biologics space would create new growth avenues for Laurus with benefits likely to accrue over the medium term. Considering a long-term horizon of 3-5 years, the management aspires to grow the revenues beyond \$1 billion ("Rs 7500 cr) driven by strong management bandwidth, investments towards upskilling of manpower, building capabilities and capacities. Strong topline growth and OPM expansion would result in a sturdy 73% PAT CAGR over FY20-FY23. At the CMP, the stock is trading at a valuation of 17.5x/14.8x its FY2022E/FY2023E EPS. Sturdy growth prospects, visibility on earnings, healthy return ratios and low debt-equity are key positives. Further Laurus has significantly outperformed the benchmark Sensex and healthcare index by 15% & 33% over the past six months and basis the above triggers we expect Laurus to continue to outperform the benchmarks. We retain a Buy recommendation on the stock with a revised PT of Rs. 450.

Key Risks

Deferral in product approvals or any negative outcome of facility inspection by regulators can affect earnings prospects.

Valuation (Consolidated)

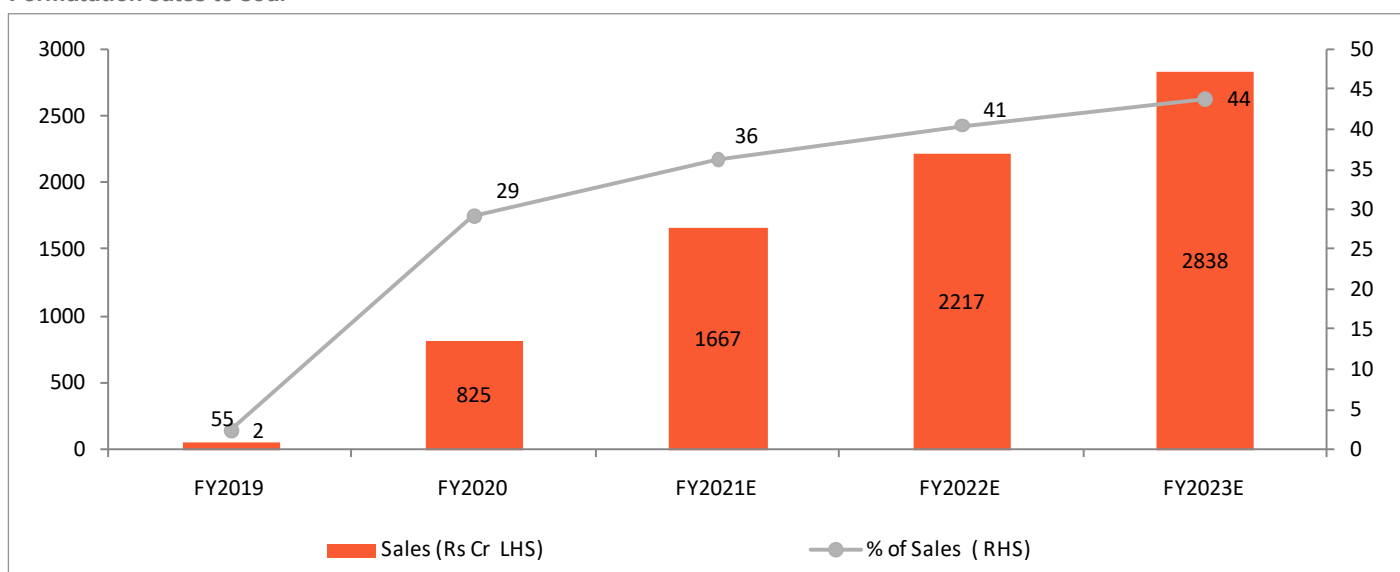
Particulars	FY19	FY20	FY21E	FY22E	FY23E
Sales	2291.9	2831.7	4594.0	5468.7	6467.8
Operating Profits	356.0	564.5	1433.3	1684.3	1985.6
OPM(%)	15.5	19.9	31.2	30.8	30.7
PAT	93.8	255.3	935.7	1107.4	1315.1
EPS	1.8	4.8	17.6	20.8	24.7
P/E	207.1	76.1	20.8	17.5	14.8
EV/EBIDTA	57.6	36.1	14.2	11.9	10.0
ROE (%)	6.0	14.4	34.6	29.0	25.6
ROCE (%)	7.2	13.2	32.6	29.9	28.0

Source: Company; Sharekhan estimates

Formulations segment on strong footing led by new launches in the US and in-licensing opportunities

Laurus is witnessing improved traction for its formulations segment with nine-month sales at Rs. 1,234 crore, up 120% growth y-o-y. In addition to the tendering business, which is likely to stage a healthy growth, there are other triggers which could fuel growth for the segment. Laurus is looking to increase the quantum of launches in the US over the next two years – FY2022 and FY2023. Also opportunities from certain in-licensing products would add to the formulation segment's sales. Secondly, the company is expanding capacities in the formulations segment. This would be done through a mix of de-bottlenecking exercises as well as setting up of new facilities / blocks. Laurus expects 15% expansion in existing capacities through de-bottlenecking to go on stream by April 2021, while by December 2021, the second leg of capacity expansion would be ready. Collectively Laurus would be doubling its formulations capacities by FY2022. The new capacities would witness a gradual ramp up in utilisation levels and the management expects to achieve an optimum level during FY2023. Collectively, strong demand expected from new launches in the US which would be well backed up by expanding capacities would drive growth in the formulations segment.

Formulation sales to soar

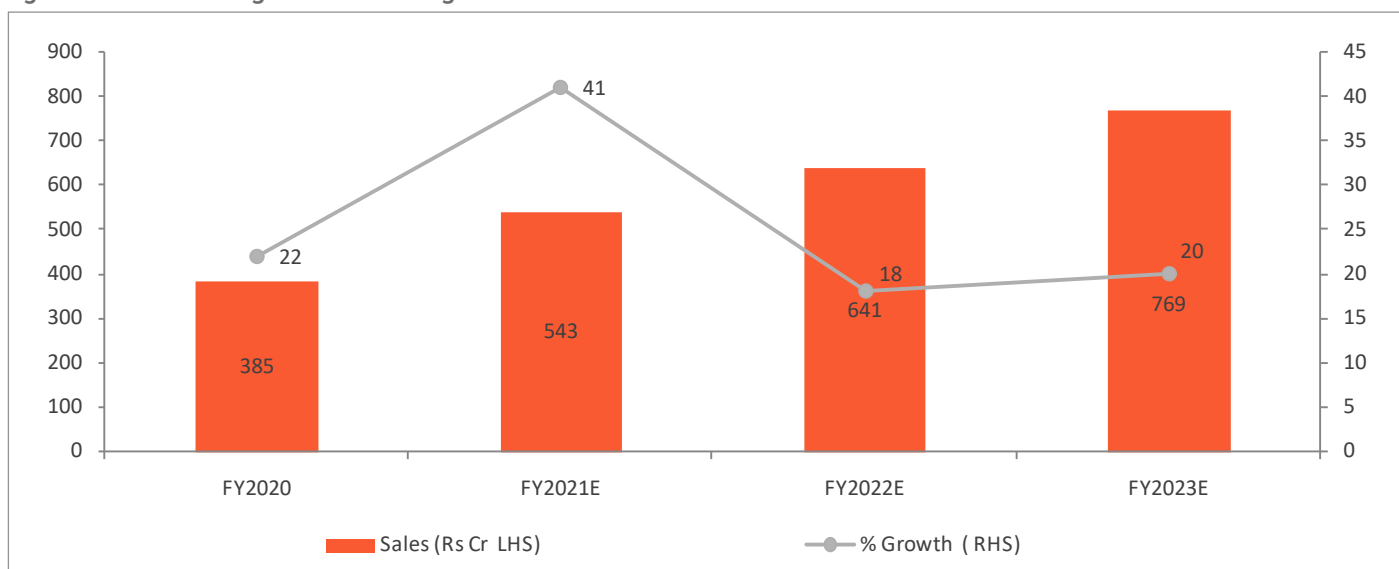


Source: Company; Sharekhan Research

Custom synthesis business to clock double-digit growth:

The custom synthesis business witnessed improved traction with 9MFY2021 revenues growing strongly by 45% y-o-y. Going ahead, traction is expected to sustain backed by client additions and increasing commercialisation of products. Moreover, to cater to the increasing demand the company is expanding capacities in custom synthesis business. Cumulatively, with expanded capacities coming on-stream during FY2022 and an increase in commencement of commercial supplies, would drive growth for the custom synthesis business. The segment's sales are expected to clock a 19% CAGR over FY2021 to FY2023. Further, Laurus also has incorporated a wholly-owned subsidiary which would house the custom synthesis business with a dedicated R&D and manufacturing facilities. Eventually the company, if needed could evaluate a partial stake dilution in the custom synthesis business. This bodes well for the company.

Synthesis business to grow in double digits



Source: Company; Sharekhan Research

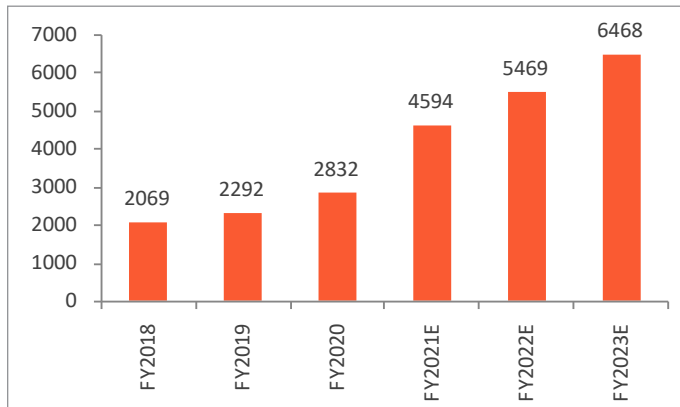
Capex to drive Laurus Bio's topline

Laurus' recent acquisition in the biotechnology / Biologics space - Laurus Bio - is expected to yield substantial synergies going ahead and is expected to complement the company's aggressive growth strategies. Laurus Bio operates through three distinct revenue streams – Biotech, Enzymes, and CDMO, among which its revenues are equally split. Going ahead, this is expected to change with the CDMO segment likely to be a major contributor to growth as a chunk of the incremental capacities are towards this business. Laurus has one plant operational with a capacity of 17,500 litres and is setting up another plant with a capacity of 1.8 lakh litres that is likely to be ready by April 2021. Fresh capacities are unlikely to require any major compliance approvals and are already pre-booked by existing clients. The CDMO plant caters to the requirement of the clients largely in exports markets (US and Europe) and focused on the food industry. Hence, post the completion of the plant, the company would be in a position to commence commercial production from the new capacity, which in turn would add to overall topline growth.

Long-term triggers in place; management aspires to grow topline beyond \$1 bn: Considering a long-term time horizon, Laurus' financial performance has reported a strong growth. Revenues and PAT have clocked a 12% and 18% CAGR over FY2016 to FY2020. A larger chunk of this growth has been in FY2020, attributable to the company's leadership position in the ARV space and focus on the formulations segment for growth. Going ahead the company has charted out its growth trajectory, which spans across strengthening its presence in the non ARV space, fortifying its position in the formulations and synthesis segments and tapping the new area of biologics (through Laurus Bio). In order to achieve this the Laurus is banking on the strong management bandwidth, which would support the growth. Also the company has been investing on building its resources by engaging key personnel with requisite skill developments through professional trainings. It has also tied up with universities, which enables consistent access to trained manpower (a key resource for growth). In addition to manpower, Laurus also looks to build in new capacities / facilities which would be the key factor for the growth going ahead. Collectively, basis a strong management bandwidth, upskilling manpower and building of new facilities and capabilities, the management aspires to grow the overall revenues beyond \$1 billion (~Rs 7500 crore) over the long term horizon of 3-5 years.

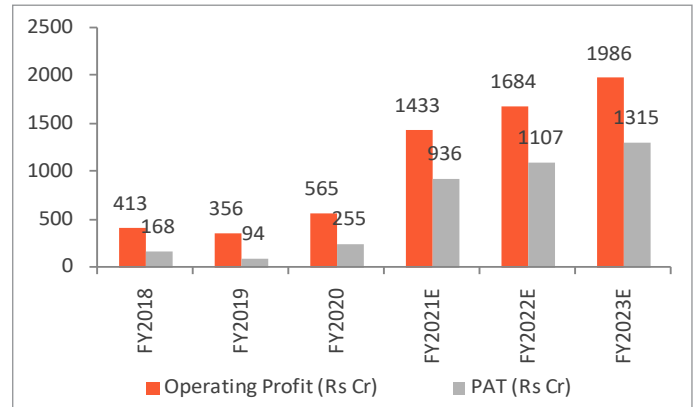
Financials in charts

Sales Trends (Rs Cr)



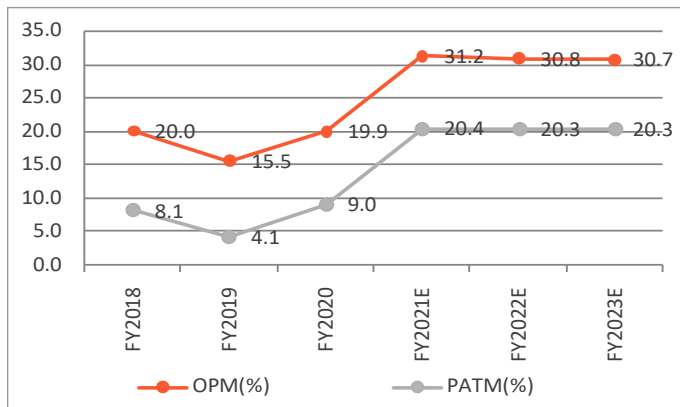
Source: Company, Sharekhan Research

Operating Profit - PAT Trends



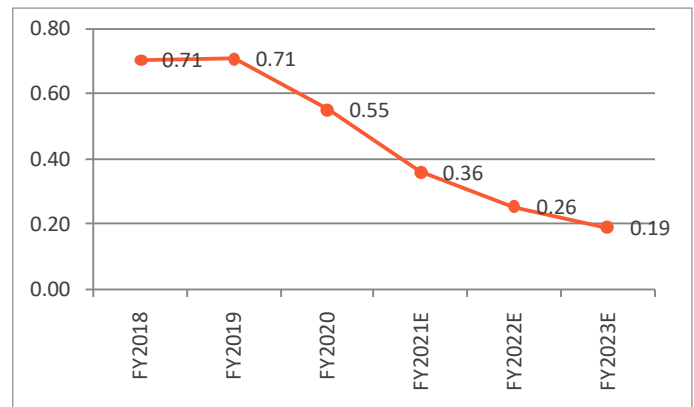
Source: Company, Sharekhan Research

Margin Trends



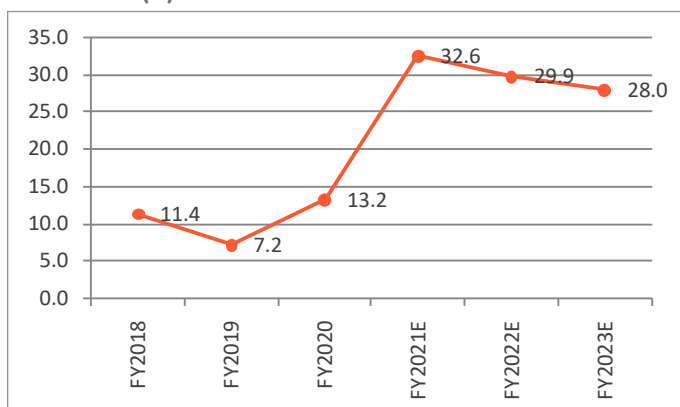
Source: Company, Sharekhan Research

Improving Leverage (D:E)



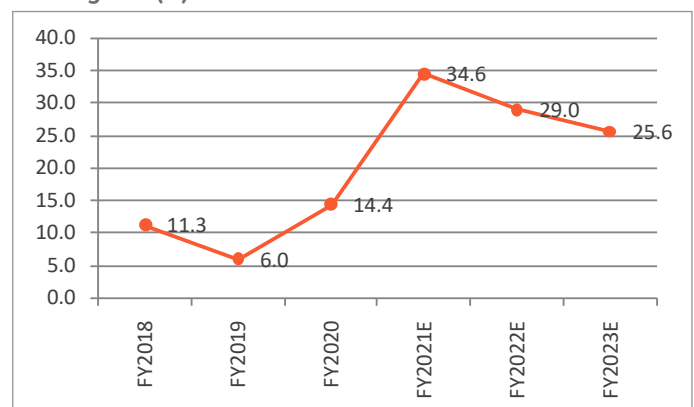
Source: Company, Sharekhan Research

RoCE Trend (%)



Source: Company, Sharekhan Research

Healthy RoE (%)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Growth momentum to improve

Indian pharmaceutical companies are better placed to harness opportunities and report healthy growth going ahead. Indian companies are among the most competitive ones globally and hold a sizeable market share in most developed as well as other markets. Moreover, other factors such as easing of pricing pressures (especially in the US generics market), greater product approvals, and plant resolutions by the USFDA coupled with strong growth prospects in domestic markets and emerging opportunities in the API space would be key growth drivers. This would be complemented by strong capabilities developed by Indian companies (leading to a shift towards complex molecules and biosimilars) and commissioning of expanded capacities by select players over the medium term. Collectively, this indicates a strong growth potential going ahead for Indian pharma companies.

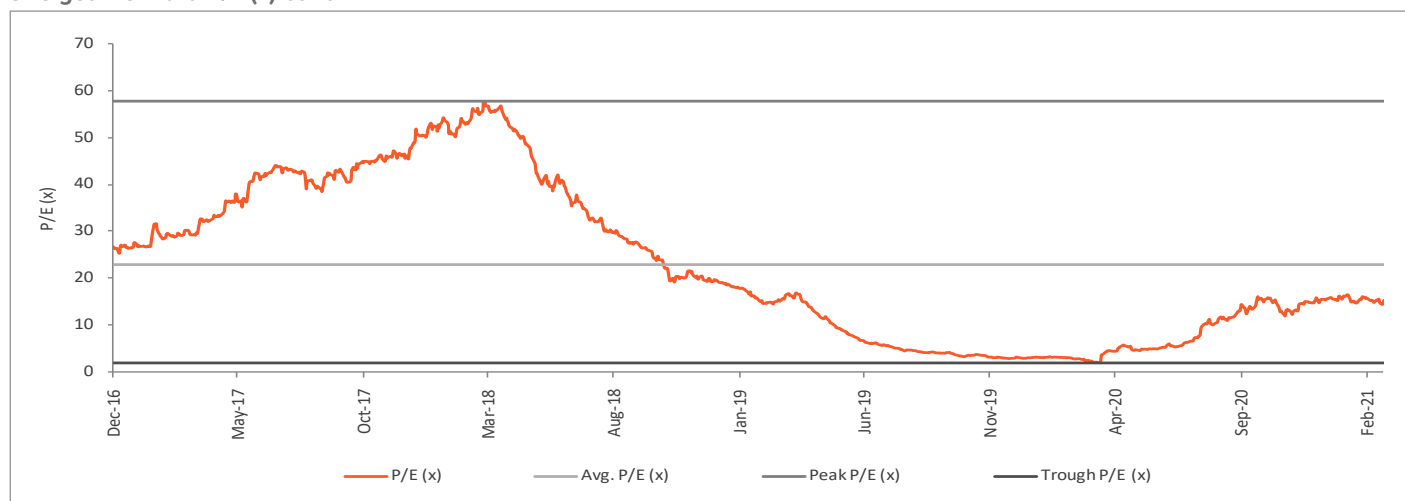
■ Company outlook - Robust Growth prospects

The formulations business is gaining traction with new approvals and launches. The company is enhancing its current portfolio, stepping up R&D activity, and strengthening and expanding manufacturing capabilities. Further, after leveraging its strengths in the API segment, Laurus is now focusing on building its presence in the lucrative formulations space and is now looking to almost double its capacities in this segment to cater to the surging demand. Sturdy growth in the formulations business is likely to sustain going ahead. Moreover, expected traction in the synthesis business and improvement in the ARV space would be the key revenue drivers. Benefits of operating leverage and a favourable product mix would help OPM expand. The recent acquisition of Laurus Bio marks its entry into the lucrative biologics space. This coupled with RLPL's strong capacities in the CDMO space augurs well and would add to growth over the medium to long term. Overall, considering a long-term horizon of 3-5 years, a strong management bandwidth, upskilling manpower and investments towards building capacities and capabilities could be the key growth drivers and could fuel the management's efforts to grow revenues beyond \$1 billion.

■ Valuation - Retain Buy with revised PT of Rs. 450

The formulations business is witnessing elevated traction and the management expects to sustain the strong momentum going ahead. In addition to strong growth in the tendering business, the company is also eyeing further launches in the US and also aiming to tap opportunities from in-licensing of products. Rising demand would be supported by expanded capacities coming on-stream. The synthesis business is also on a strong footing to grow backed by client wins and expected increase in commercialization of products. Focus on non ARV segments of anti-diabetes and cardiology would support growth in the API segment. The recent foray in the biologics space would create new growth avenues for Laurus with benefits likely to accrue over the medium term. Considering a long-term horizon of 3-5 years, the management aspires to grow the revenues beyond \$1 billion (~Rs 7500 cr) driven by strong management bandwidth, investments towards upskilling of manpower, building capabilities and capacities. Strong topline growth and OPM expansion would result in a sturdy 73% PAT CAGR over FY20-FY23. At the CMP, the stock is trading at a valuation of 17.5x/14.8x its FY2022E/FY2023E EPS. Sturdy growth prospects, visibility on earnings, healthy return ratios and low debt-equity are key positives. Further Laurus has significantly outperformed the benchmark Sensex and healthcare index by 15% & 33% over the past six months and basis the above triggers we expect Laurus to continue to outperform the benchmarks. We retain a Buy recommendation on the stock with a revised PT of Rs. 450.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBITDA (x)			RoE (%)		
				FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Laurus Labs	365.0	53.2	19,575.0	76.1	20.8	17.5	36.1	14.2	11.9	14.4	34.6	29.0
Granules	350	45.3	8,679	26.2	16.0	13.4	16.9	10.2	8.3	17.9	23.3	22.4
Strides Pharma Sciences	851	58.6	7631	54.5	29.1	19.1	14.5	11.9	9.4	1.7	11.1	12.8

Source: Company, Sharekhan Research

About company

Laurus is a leading research-driven pharmaceutical company, working with nine of the world's top 10 generic pharmaceutical companies in the world. Laurus sells APIs in 56 countries. The company's major focus areas include anti-retroviral, Hepatitis C, and Oncology drugs. Oncology is one of its core competencies, where it offers a comprehensive range of APIs in this segment. Laurus is continuously extending its portfolio by focusing on molecules in diabetes, ophthalmology, and cardio-vascular therapy areas. Laurus has four distinct business units, namely: Generics API, Generics FDF, Ingredients, and Synthesis.

Investment theme

Built on strong capabilities in chemical development and manufacturing, Laurus has developed a wide range of in-house APIs and intermediates. Laurus is one of the world's leading suppliers of anti-retroviral APIs and intermediates. The company's low-cost technologies give it an edge over other players. Leveraging on API cost advantage for forward integration into generic formulations (FDF) and capitalising on its leadership position in APIs (in key areas such as oncology, cardio-vascular, anti-diabetics, and ophthalmology) with foray into other regulated markets will drive the company's business over the next couple of years. Moreover, the company is doubling its capacity to support growth in the formulations business, which points towards healthy growth going ahead. The recent acquisition by Laurus marks its entry into the lucrative biologics space and would be growth accretive over the medium to long term.

Key Risks

- ♦ Slower-than-expected ramp-up in formulations or custom synthesis businesses.
- ♦ Reforms in the healthcare industry and uncertainty associated with pharmaceutical pricing, reimbursement, and related matters could affect pricing and demand for Laurus' products.

Additional Data

Key management personnel

Dr. Satyanarayana Chava	Founders and CEO
Mr. V V Ravi Kumar	Executive Director and CFO
Mr. Krishna Chaitanya Chava	Executive Vice President, Head – Synthesis & Ingredients

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Ambit Capital	11.7
2	Amansa Holdings Pvt Ltd	6.1
3	Government Pension Global Fund	1.8
4	Vangaurd Group Inc	1.2
5	Blackrock Inc	0.9
6	Norges Bank	0.9
7	HSBC Holdings	0.7
8	Kotak Mahindra Asset Management Co	0.7
9	UTI asset Management Co Ltd	0.6
10	ICICI Prudential Asset Management Co	0.6

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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