



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. 592	
Price Target: Rs. 800	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

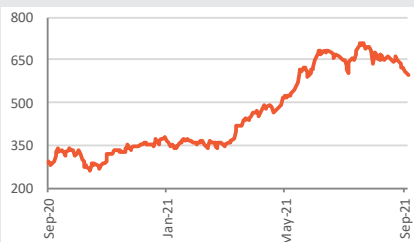
Company details

Market cap:	Rs. 31,788 cr
52-week high/low:	Rs. 724 / 251
NSE volume: (No of shares)	38.9 lakh
BSE code:	540222
NSE code:	LAURUSLABS
Free float: (No of shares)	39.0 cr

Shareholding (%)

Promoters	27.3
FII	22.8
DII	4.1
Others	45.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-10.1	-12.4	66.8	102.9
Relative to Sensex	-16.4	-25.5	45.0	45.8

Sharekhan Research, Bloomberg

Summary

- We re-iterate a Buy recommendation on the stock of Laurus Labs (Laurus) with an unchanged PT of Rs. 800. Stock price has corrected by ~16% from its highs and this provides a good entry point for investors
- The recent clarification over the non-suspension of marketing authorizations of Laurus' products points at concerns being overdone.
- Laurus is fortifying its position in the FD and synthesis segments, strengthening its presence in non-ARV space and growing in new area of biologics. Emerging opportunities from patent expiry of drugs in areas of anti-diabetes and cardiology offer significant potential for Laurus.
- Basis sturdy growth prospects and capacity expansion plans, Laurus has targeted for a \$1bn revenues by FY2023.

We had an interaction with the management of Laurus Labs Limited's (Laurus) and the commentary was positive. The recent stock price correction of ~16% from its highs, was attributable to the regulatory concern leading to suspension of marketing authorization of generic medicines in US and Europe. However, the management has clarified and has stated that there is no suspension in marketing authorization for its products (except for one product) and this bodes well for Laurus. Further, the strong growth prospects across segments coupled with capacity expansion plans provide ample visibility for growth. For Q2FY22, Laurus' performance is expected to be driven by commissioning of new capacities and sustained demand traction across segment with the earnings trajectory likely to stay intact.

- Concerns overdone:** The recent media reports indicated of 18 products of Laurus being included in the list of suspension of Marketing authorizations by the EMA – Europe as these products were claimed to be tested in a lab with regulatory concerns. However, the management has clarified on this news and has stated that just one of its products had been impacted and that has a negligible contribution to the overall sales. The other products are in the prescription list and would continue to grow, thus pointing at concerns of being overdone. Therefore, the correction in stock price has been steeper than the concerns and now provides for a good entry point for investors.
- Q2FY22 earnings trajectory to be intact:** During Q1FY22 Laurus has commissioned its 1 bn tablets capacity in the FD (Finished Dosages) segment and the same would add to the Q2FY22 performance. Also new client additions, growth from existing customers would drive the synthesis segment sales, while commissioning of Laurus Bio's fermenters (2 fermenters each with 45000 KL capacity) also would aid the topline growth. Overall Laurus' revenues and earnings are expected to stage a double digit y-o-y growth for Q2.
- Long term driver in place:** Laurus is fortifying its position in the FD and synthesis segments, strengthening its presence in non-ARV space and growing in new area of biologics. The company is building new capacities that would support the robust demand and also propel growth in the coming years. Emerging opportunities from patent expiry of drugs in areas of anti-diabetes and cardiology offer significant potential for Laurus.

Our Call

**Valuation: Re-iterate Buy with unchanged PT of Rs. 800:** Basis the sturdy growth prospects that are well supported by capacity expansion plans, the management has targeted for a \$1bn revenues by FY2023, thus translating in to a strong growth trajectory. Diversification of revenue base and plans to enter new therapeutic areas of cardiology and anti-diabetes would also be the key growth drivers. At CMP the stock trades at 24.8x and 19x its FY22E and FY23E EPS respectively. Further the stock price has corrected by ~16% from its highs and this provides a good entry point for investors. As the concerns are overdone, we re-iterate Buy recommendation on the stock with an unchanged PT of Rs. 800.

Key Risks

Any delay in product approvals or any negative outcome of facility inspection by the USFDA can affect earnings prospects.

Valuation (Consolidated)

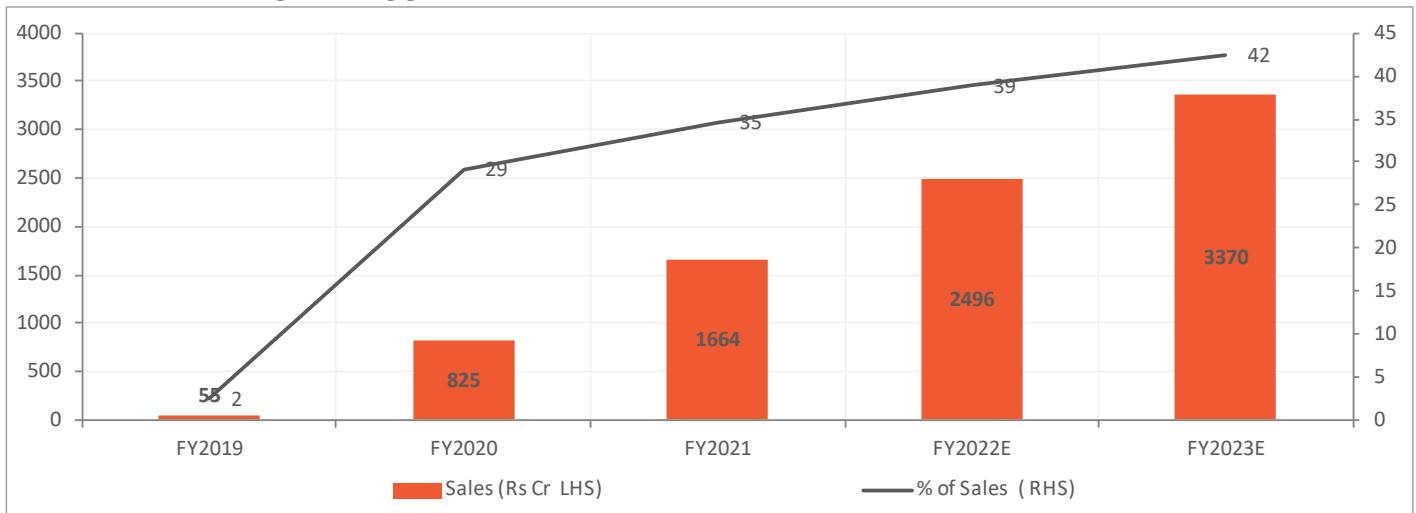
Particulars	Rs cr				
	FY20	FY21	FY22E	FY23E	FY24E
Sales	2831.7	4813.5	6425.6	8043.3	9796.0
Operating Profits	564.5	1550.7	2056.2	2654.3	3320.9
OPM(%)	19.9	32.2	32.0	33.0	33.9
PAT	255.3	983.9	1272.9	1656.2	2176.0
EPS	4.8	18.5	23.9	31.1	40.9
P/E	123.5	32.0	24.8	19.0	14.5
EV/EBIDTA	57.6	21.2	15.7	12.2	9.5
ROE (%)	14.4	37.9	32.9	30.0	28.2
ROCE (%)	13.2	32.2	32.2	31.7	31.2

Source: Company; Sharekhan estimates

### FD segment on a strong footing; incremental capacities to support growth:

The finished dosages (FD) segment of the company is witnessing improved growth traction and is expected to be a key growth driver for the company. The FD segment revenues have staged a strong performance growing from Rs. 54 crore in FY2019 to Rs. 1664 crore in FY2021. Further in Q1FY22, the FD sales have staged a 48% y-o-y growth to Rs 521 crore. Going ahead, the strong traction is expected to sustain backed by Laurus' efforts to expand geographic footprint into the European region through partnerships. During the quarter ended June 2021, Laurus has validated four additional formulations products and also has commissioned 1 bn tablets capacity and plans to commission additional 4 bn tablets capacity by FY22, in the 2HFY22. Other key drivers for the formulations business include - expansion of the ARV portfolio and expected traction in the tendering business. Laurus is also focusing on building a robust ANDA pipeline for the US and has also simultaneously been filling dossiers in the other key markets such as Europe, Canada and Rest of the World. As of Q1FY22, Laurus has filed 28 ANDAs in the US and has 66 DMF's. Going ahead, the company looks to increase the filling pace in FY22 and in Q1FY22 the company has filled for 5 ANDA's. Of the 28 ANDA's filed in the US, 9 are FTF (First to File) and 2 are Para IV's. This points at a fairly strong product pipeline. Collectively, strong growth traction from new launches in the US, expansion of geographic footprint to the Europe, well supported by expanding capacities would drive growth in the formulations segment.

#### Formulation Sales to stage a sturdy growth

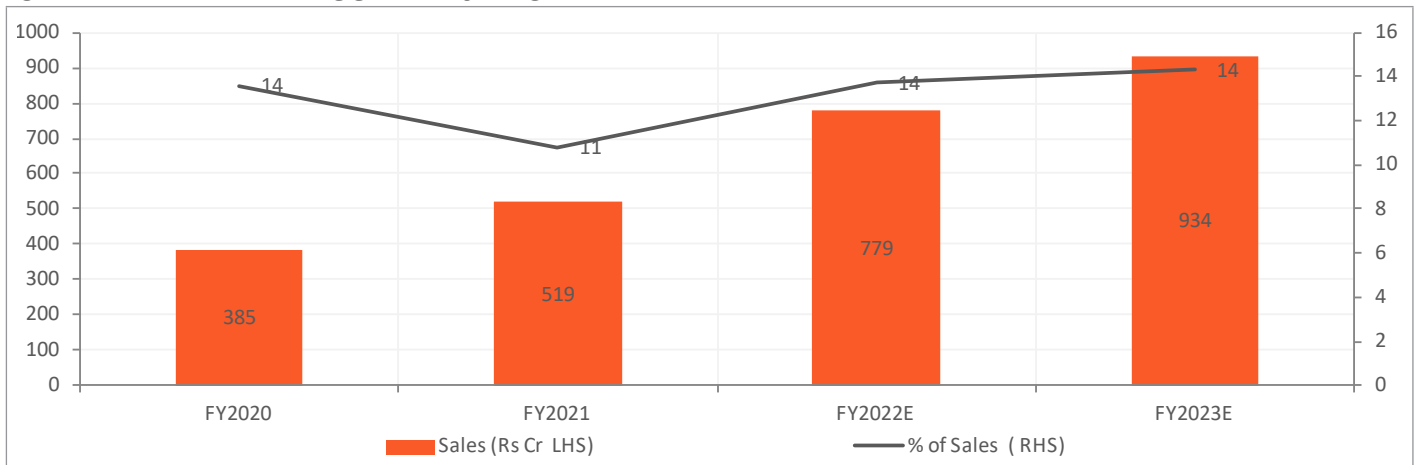


Source: Company, Sharekhan Research

### Synthesis segment to stage a strong double digit growth:

Laurus's synthesis business has staged a strong 95% y-o-y growth in the quarter ending June 2021, while for FY2021 the revenues from the segment has staged a growth of 35% y-o-y for FY2021 to Rs. 519 crore. Going ahead, the growth is expected to sustain supported by client additions and increasing commercialization of products. On the industry front, the CRAMS industry is expected to grow by a 7% CAGR over 2019-2025 led by increasing costs of R&D, coupled with significant revenue loss due to the impending patent cliff that has led major pharmaceutical companies globally to outsource a part of their research and manufacturing activities to low-cost countries like India. India offers significant cost advantages over matured manufacturing hubs in Europe and North America and has already emerged as one of the leading cost-competitive and quality manufacturing hubs for many global players including big pharma companies. The domestic CRAMS market is expected to reach \$40 billion by 2030. As of Q1FY22, the total number of projects under the CDMO division stood at 50 and the commercial supplies are ongoing for 4 products. Laurus has created a subsidiary for the synthesis business and sees the synthesis business to be a key growth driver for the company.

**Synthesis Business on a strong growth trajectory**



Source: Company, Sharekhan Research

**API segment to grow steadily:**

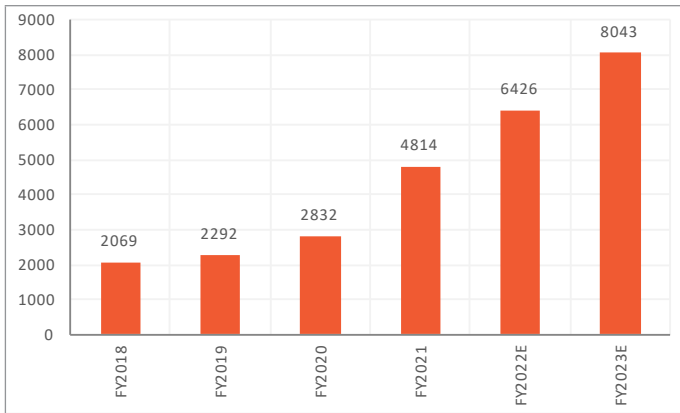
The API business constitutes of three sub-segments – ARV APIs (~71% of Fy21 API sales), oncology API’s (10% of API sales) and other API’s which constitute around 19% of API sales. Laurus is one of the leading suppliers of ARV - APIs and intermediates and plans to further strengthen its presence in this area by focusing on Oncology API’s, other API’s and ARV API’s. In the oncology segment, Laurus plans to focus on the high potent molecules for growth, while in the other APIs it plans to focus on key therapeutic segments such as anti-diabetic, cardiology, CNS products and in ARV API segment, the company would focus on expanding the product kitty by introducing second line of products, maintenance of existing product portfolio, launch of new first-line products – Lamivudine and Dolutegravir, and supply of APIs to EU and North America. The segment sales grew modestly 5% y-o-y in Q1FY22 to Rs. 549 crore impacted the performance of the other API sales. Also the ARV API segment sales grew by 23% y-o-y as demand normalization trend was observed. The demand was strong for the first line API while 2nd line API’s recorded a healthy growth. The onco API segment sales grew 16% y-o-y. The management expects the blip in the other APIs sales to be a temporary one and has guided for recovery from Q2FY22. The overall API sales are expected to grow by double digit CAGR over FY2021-FY2023E.

**Sturdy capex plans provide visibility on growth:**

Laurus is one of the fastest-growing pharmaceutical companies. One of the key reasons for the consistent strong performance is the capacity expansion investments / plans being implemented by the company with an objective to ensure economies of scale and adequate supplies to customers. The company continues to expand its manufacturing scale across key segments to leverage opportunities, expand portfolio and reach out to more customers. Recently, Laurus has embarked on an ambitious capacity expansion plan at an investment of Rs. 1,500-1,700 crore over the next two years. Laurus is also expanding capacities towards backward integration of intermediates, additional API capacity for existing products and new products. Overall, a sturdy demand outlook supported by capacity expansion would enable Laurus to expand its product basket and also enable higher volumes which in turn could drive market share gains going ahead.

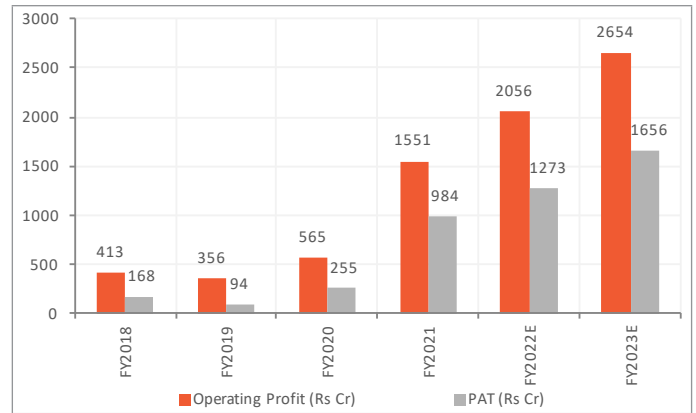
**Financials in charts**

**Sales Trends (Rs Cr)**



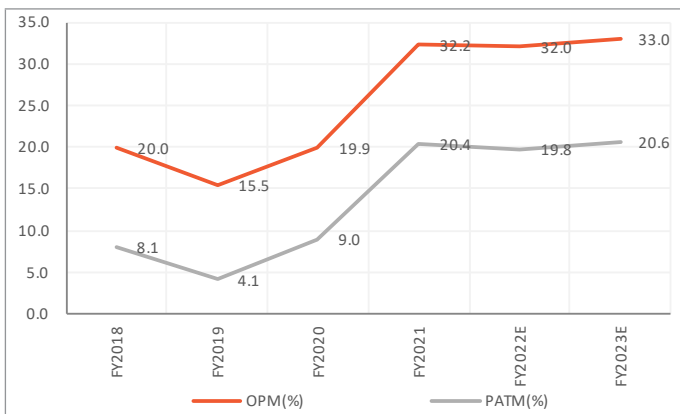
Source: Company, Sharekhan Research

**Operating Profit - PAT Trends**



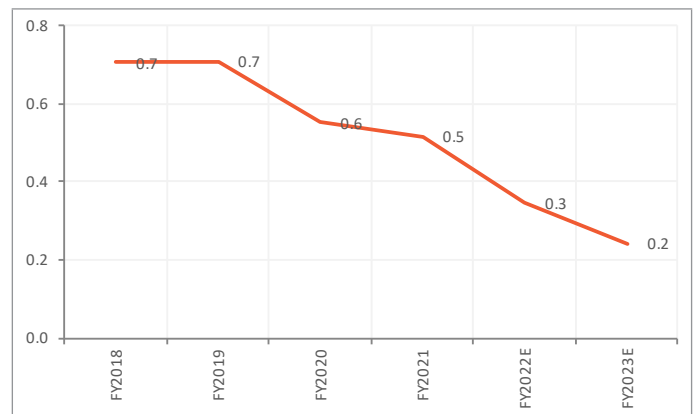
Source: Company, Sharekhan Research

**Margin Trends**



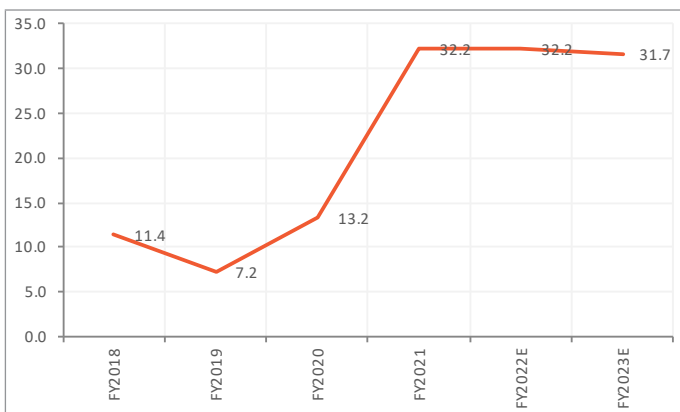
Source: Company, Sharekhan Research

**Improving Leverage**



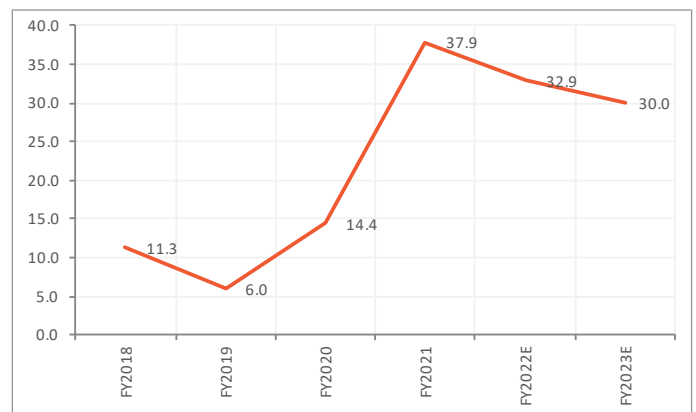
Source: Company, Sharekhan Research

**RoCE Trend (%)**



Source: Company, Sharekhan Research

**RoE Trend (%)**



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Growth momentum to improve:

Indian pharmaceutical companies are better placed to harness opportunities and clock 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), rise in product approvals and plant resolutions by the USFDA and strong growth prospects in domestic markets and emerging opportunities in the API space would be key growth drivers. This would be complemented by the strong capabilities developed by Indian companies (leading to a shift towards complex molecules, biosimilars) and commissioning of expanded capacities by select players over the medium term. Collectively, this indicates a strong growth potential going ahead for pharma companies.

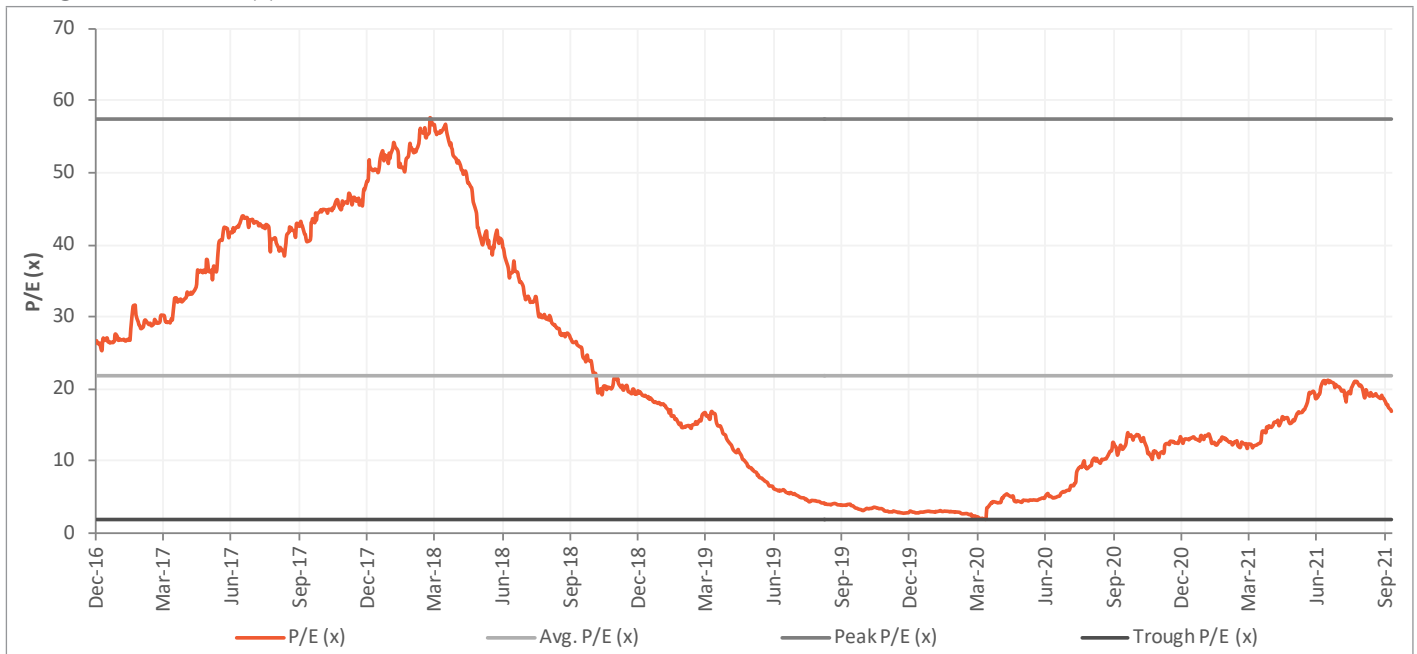
### ■ Company outlook – Robust outlook:

All of Laurus' businesses have a robust growth outlook backed by improving demand and supported by capacity expansion plans lined up. The company is enhancing its current portfolio, stepping up R&D activity and strengthening and expanding manufacturing capabilities. Further, leveraging its strengths in the API segment, Laurus has successfully forward-integrated into the lucrative formulations space and is now looking to almost double its formulations capacities so as to cater to surging demand and management is confident of sustaining the strong growth momentum. Further, over the long term, Laurus is also in the process to diversify in to non ARV APIs of cardiology and diabetology and in the process reduce the dependence on the ARV segment. In addition, the synthesis business is expected to grow strongly in the next two years with sustained new client additions, growth in existing business and likely commercialization of new products. The management sees a strong potential in the synthesis business for a positive surprise. Also, the company has incorporated a new subsidiary company Laurus synthesis to focus on the synthesis business and sees this company to be self-reliant by FY2023. Laurus Bio is also expected to grow substantially over the next 4-5 years and would make the company a fully integrated player in the pharmaceutical space. Benefits of operating leverage and a favorable product mix would result in OPM expansion.

### ■ Valuation – Re-iterate Buy with unchanged PT of Rs. 800:

Laurus has charted a growth path that involves fortifying its position in the FD and synthesis segments, strengthening its presence in the non- ARV space and growing in new area of biologics (through Laurus Bio). The company is building new capacities that would support robust demand and also propel growth in the coming years. Emerging opportunities from patent expiry of drugs in areas of anti-diabetes and cardiology offer significant potential for Laurus and the company has been building capacities which could enable it to capitalize on the opportunity. Also the recent concerns regarding to suspension of marketing authorizations for its products have been overdone with the management clarifying on the same. At CMP, the stock trades at 24.8x and 19x its FY22E and FY23E EPS respectively. Strong topline growth prospects, visibility on earnings and healthy return ratios and low debt-equity are the key positives. Further over the past two months the stock price has corrected by ~16% and this provides a good entry point for investors. Further as the concerns are overdone, we re-iterate Buy recommendation on the stock with an unchanged PT of Rs. 800.

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/EBIDTA (x)			RoE (%)		
				FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Laurus Labs	592.0	53.2	31,788.0	32.0	24.8	19.0	21.2	15.7	12.2	37.9	32.9	30.0
Granules	320	45.3	7,929	14.4	13.4	10.1	9.8	9.0	25.3	21.9	23.7	22.4
Strides Pharma Sciences	586	58.6	5261	27.3	87.8	15.5	8.9	12.4	6.8	8.8	2.2	11.1

Source: Company, Sharekhan estimates

## 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 capitalizing 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. Overall, in the wake of an expected robust growth outlook, Laurus has embarked up on a massive capex program for the next two years, which provides ample visibility on growth.

## Key Risks

- ◆ Slower-than-expected ramp-up in formulations, API or custom synthesis businesses.
- ◆ Adverse changes in regulatory landscape could impact growth prospects.

## Additional Data

### Key management personnel

Dr. Satyanarayana Chava	Founder and CEO
Mr. V V Ravi Kumar	Executive Director and CFO
Dr. Lakshmana Rao C V	ED & Head, Quality
Mr. Krishna Chaitanya Chava	Head – Synthesis Division

Source: Company Website

### 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	Vanguard 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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