Laurus Labs

Accumulate

DART — DOLAT ANALYSIS & RESEARCH THEMES — IN-DEPTH•PRECISE•ACTIONABLE

Result Update

Strong beat in Q2, strong guidance maintained

Laurus reported robust 2Q beating our estimates primarily driven by stellar growth in formulations. Though majority growth is led by ARV tender based opportunities, leveraging its backward integration, Laurus has demonstrated commendable execution capability as the growth is volume led without any one-offs. Management remained confident of growth sustenance in 2H as well. In order to supplement future growth, Laurus has undertaken a massive capex program (Rs12bn) of which Rs5bn is allocated towards formulations, to be largely funded through internal accruals.

We summarise the structural changes: (1) Capex to be split into formulations/API/CRAMS in the ratio of 40/40/20, (2) Current revenue mix is 60% ARV which is expected to come down to 50%, (3) ARV API growth is volume driven with market share gains in TLD. Revised outlook by the WHO has increased the patient base of ARV leading to market share gains in ARV formulations in LMIC, (4) Steady growth in Other API segment (diabetes, neuro) have strong growth visibility basis which management has undertaken large capacity addition by end of FY21, (5) New launches in US & EU, and (6) steady build-up in Custom Synthesis projects (50 active projects), building a dedicated unit in Vizag.

We are not concerned with slight delay in FCF generation, and remain of the view that strong growth momentum will compensate for the same. We build in improvement in CFO/EBITDA from FY22 onwards at 69% vs 46% expected in FY21. Basis the outperformance, we raise our earnings estimates by 35% each for FY21/22. We project 15% PAT CAGR while top-line is expected to grow at 14% CAGR over FY21-23E with EBITDA margins higher at 30% as the product mix changes from low margin ARV APIs to high margin products in API, formulation and CDMO. **At CMP, the stock trades at 19.4x FY22E and 16.1x FY23E. Our target price of Rs400 values the stock at 19x FY23 earnings. Upgrade to BUY.**

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	11,388	7,124	59.9	9,743	16.9
Total Expense	7,650	5,746	33.1	6,960	9.9
EBITDA	3,739	1,378	171.3	2,783	34.3
Depreciation	510	478	6.6	488	4.5
EBIT	3,229	900	258.8	2,295	40.7
Other Income	51	14	276.2	71	(27.8)
Interest	137	256	(46.5)	151	(9.6)
EBT	3,143	658	377.9	2,215	41.9
Tax	720	92	681.4	497	45.0
RPAT	2,423	566	328.4	1,718	41.0
APAT	2,423	566	328.4	1,718	41.0
			(bps)		(bps)
Gross Margin (%)	56.0	49.5	651	54.2	176
EBITDA Margin (%)	32.8	19.3	1349	28.6	426
NPM (%)	21.3	7.9	1334	17.6	364
Tax Rate (%)	22.9	14.0	890	22.4	48
EBIT Margin (%)	28.4	12.6	1572	23.6	479

CMP	Rs 319
Target / Upside	Rs 400 / 25%
NIFTY	11,642

Scrip Details

Equity / FV	Rs 1,072mn / Rs 10
Market Cap	Rs 171bn
	USD 2bn
52-week High/Low	Rs 1,550/ 268
Avg. Volume (no)	3,359,010
Bloom Code	LAURUS IN

Price Performance	1M	3M	12M
Absolute (%)	14	71	322
Rel to NIFTY (%)	14	70	328

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	32.1	32.1	32.0
MF/Banks/FIs	3.3	20.4	15.2
FIIs	20.7	16.1	11.3
Public / Others	43.9	31.4	41.5

Valuation (x)

	FY21E	FY22E	FY23E
P/E	20.7	18.7	15.5
EV/EBITDA	13.5	12.0	9.7
ROE (%)	37.9	29.9	27.1
RoACE (%)	27.5	22.9	22.0

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	43,737	49,891	56,594
EBITDA	13,403	14,635	17,204
PAT	8,284	9,138	11,010
EPS (Rs.)	15.5	17.0	20.5

VP - Research: Sapna Jhawar
Tel: +9122 40969724
E-mail: sapnaj@dolatcapital.com

Associate: Zain Gulam Hussain
Tel: +9122 40969724
E-mail: zain@dolatcapital.com

Exhibit 1: Revenue Break-up (Rs mn)

Particulars	Q2FY20	Q2FY21	% YoY	Q1FY21	% QoQ	1HFY20	1HFY21	% YoY	FY20	FY21E	% YoY
Generic API	4,624	5,710	23.5	5,220	9.4	8,321	10,930	31.4	16,094	21,571	34.0
ARV	3,169	3,790	19.6	3,360	12.8	5,999	7,150	19.2	10,863	14,399	32.5
Oncology	597	860	44.1	510	68.6	1,047	1,370	30.9	2,106	2,485	18.0
Other APIs	858	1,060	23.5	1,350	(21.5)	1,275	2,410	89.0	3,125	4,688	50.0
Generic FDFs	1,599	4,520	182.7	3,520	28.4	2,659	8,040	202.4	8,253	17,331	110.0
Synthesis	603	820	36.0	1,000	(18.0)	1,193	1,820	52.6	3,114	3,893	25.0
Ingredients	298	340	14.1	0	0	457	340	(25.6)	856	942	10.0
Total Sales	**7,124**	**11,390**	**59.9**	**9,740**	**16.9**	**12,630**	**21,130**	**67.3**	**28,317**	**43,737**	**54.5**

Source: Company, DART

Concall Highlights

- **Capex:** Guidance revised from Rs7bn to Rs12bn over FY21-23. Majority of the capacity expansion to be operational by June'22. Capex will be split in the ratio of 40:40:20 for formulations, API and CRAMs respectively. In 1HFY21, company has done capex of Rs2.6bn. This mammoth capex will be completed in 3 phases:
  - **Phase I –** Debottlenecking of formulation facility to come in 3Q/4QFY21
  - **Phase II –** Brownfield capacity expansion in phased manner starting from FY22
  - **Phase III –** Greenfield expansion, where a manufacturing block is to be set up in Vizag for hormones, steroids and High Potent products.
  - Laurus will set up an R&D facility for Laurus Synthesis for Rs600mn by end of FY21
  - Plans to set up a second line of formulations site at Hyderabad. Formulations gross block is Rs5.5bn (Rs500mn is from de-bottlenecking). This will help expand capacity by 80% or 5bn tablets p.a. largely to be supplied to US and EU. Company expects A/O to be 2x post capacity expansion.
  - Expand the API facility by 30% or 1500KL
- **Sales Mix:** ARVs constitute 60% of total sales currently. This is going to change to 50% over the next 2-3 years. Within API and formulations, the revenue contribution is expected to be 40% for formulations, 50% for API and 10% for CRAMS over the next 2-3 years.
- **Guidance:** Management guided that there is no one off or bunched up sales in 2Q and the growth momentum is sustainable. Besides, they also indicated that growth is volume driven as all its facilities are running at optimum utilization. Gross margin improvement is a function of product mix coupled with favourable forex. Laurus remains confident on an equally strong 2H basis the order-book visibility. Working capital cycle will be elevated due to higher inventory build-up.
- **Formulations:** Growth led by higher volumes and market share gains across LMIC, TLE400 & 600 launch in the US and contract manufacturing in EU. Formulations revenue split is 75% LMIC and 25% in US&EU.
  - **ARV:** Management stated that there has been an increase in patient base for ARV treatments. Besides, the UN has now revised the 90:90:90 target to 95:95:95. The goal of 90% yet has a gap of 15%. This potentially adds to the patient base. Also the drug dispensing methodology has changed from 30 dosages to 90/180 dosages. But management claimed that there is no bunched up sales and the growth is purely volume driven. Laurus has 15% MS in first line ARV treatments of TLD (ex-S.A.). The demand for HCQS has slowed down.

- EU: Company stated that order book visibility remains robust for contract manufacturing in the EU for FY21 and beyond.
- US: Expected to grow sharply in FY22 on the back of new launches.

- **API:** API segment reported 23% YoY growth in Q2 led by strong volume growth in the ARV segment. 2H should likely see pick up in oncology and other API segment.
    - **ARV** segment growth was driven by TLD sales where Laurus claims it has 1/3rd market share in Tenofovir, 30% market share in Lamivudine (including new capacity expansion) and 30% in Dolutegravir market. Efavirenz sales to slowdown in FY22, but still remains an attractive product for Laurus, given backward integration.
    - **Oncology** segment grew by traction in Gemcitabine
    - **Other API** segment grew on the back of contract manufacturing order from Europe
- **CRAMS:** As on 2QFY21, Laurus is working on 50 active projects and 4 are commercialized. Company has signed a new customer. It believes that sales from Aspen Pharma has peaked out. The greenfield facility (Hormones, steroids and large molecules) at Vizag for custom synthesis is expected to commensurate from next year, thereby aiding the growth.

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	**28,317**	**43,737**	**49,891**	**56,594**
Total Expense	**22,672**	**30,333**	**35,256**	**39,389**
COGS	14,134	19,536	22,310	24,917
Employees Cost	3,449	4,333	4,947	5,616
Other expenses	5,089	6,464	7,999	8,856
EBIDTA	**5,645**	**13,403**	**14,635**	**17,204**
Depreciation	1,873	2,060	2,369	2,724
EBIT	**3,773**	**11,343**	**12,266**	**14,480**
Interest	896	806	766	728
Other Income	59	83	216	363
Exc. / E.O. items	0	0	0	0
EBT	**2,936**	**10,621**	**11,716**	**14,115**
Tax	383	2,337	2,577	3,105
RPAT	2,553	8,284	9,138	11,010
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**2,553**	**8,284**	**9,138**	**11,010**

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	1,069	1,072	1,072	1,072
Minority Interest	0	0	0	0
Reserves & Surplus	16,629	24,913	34,051	45,060
Net Worth	**17,698**	**25,985**	**35,123**	**46,132**
Total Debt	9,555	11,555	12,555	11,555
Net Deferred Tax Liability	622	678	741	810
Total Capital Employed	**27,875**	**38,218**	**48,419**	**58,497**
Applications of Funds				
Net Block	**17,263**	**20,784**	**22,138**	**22,760**
CWIP	672	773	888	1,022
Investments	371	371	371	371
Current Assets, Loans & Advances	**18,458**	**27,041**	**35,981**	**46,047**
Inventories	9,052	11,420	12,224	13,357
Receivables	7,914	11,883	13,299	14,793
Cash and Bank Balances	17	1,542	7,951	15,051
Loans and Advances	735	1,137	1,298	1,473
Other Current Assets	739	1,059	1,209	1,373
Less: Current Liabilities & Provisions	**8,889**	**10,749**	**10,959**	**11,702**
Payables	6,156	7,742	7,890	8,537
Other Current Liabilities	2,733	3,007	3,069	3,165
sub total				
Net Current Assets	9,569	16,291	25,022	34,345
Total Assets	**27,875**	**38,218**	**48,419**	**58,497**

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	50.1	55.3	55.3	56.0
EBIDTA Margin	19.9	30.6	29.3	30.4
EBIT Margin	13.3	25.9	24.6	25.6
Tax rate	13.1	22.0	22.0	22.0
Net Profit Margin	9.0	18.9	18.3	19.5
(B) As Percentage of Net Sales (%)				
COGS	49.9	44.7	44.7	44.0
Employee	12.2	9.9	9.9	9.9
Other	18.0	14.8	16.0	15.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.5	0.4	0.4	0.3
Interest Coverage	4.2	14.1	16.0	19.9
Inventory days	117	95	89	86
Debtors days	102	99	97	95
Average Cost of Debt	9.4	7.6	6.4	6.0
Payable days	79	65	58	55
Working Capital days	123	136	183	222
FA T/O	1.6	2.1	2.3	2.5
(D) Measures of Investment				
AEPS (Rs)	4.8	15.5	17.0	20.5
CEPS (Rs)	8.3	19.3	21.5	25.6
DPS (Rs)	0.8	2.4	2.4	2.4
Dividend Payout (%)	17.7	15.6	14.1	11.7
BVPS (Rs)	33.0	48.5	65.5	86.1
RoANW (%)	15.3	37.9	29.9	27.1
RoACE (%)	12.9	27.5	22.9	22.0
RoAIC (%)	14.2	35.2	31.8	34.5
(E) Valuation Ratios				
CMP (Rs)	319	319	319	319
P/E	67.1	20.7	18.7	15.5
Mcap (Rs Mn)	171,198	171,198	171,198	171,198
MCap/ Sales	6.0	3.9	3.4	3.0
EV	180,736	181,212	175,803	167,703
EV/Sales	6.4	4.1	3.5	3.0
EV/EBITDA	32.0	13.5	12.0	9.7
P/BV	9.7	6.6	4.9	3.7
Dividend Yield (%)	0.3	0.8	0.8	0.8
(F) Growth Rate (%)				
Revenue	23.6	54.5	14.1	13.4
EBITDA	58.6	137.4	9.2	17.6
EBIT	96.7	200.7	8.1	18.1
PBT	145.2	261.7	10.3	20.5
APAT	172.2	224.5	10.3	20.5
EPS	172.2	224.5	10.3	20.5

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	3,305	6,176	10,165	12,443
CFI	(2,265)	(5,681)	(3,839)	(3,480)
CFF	(1,066)	1,029	83	(1,863)
FCFF	1,041	495	6,326	8,963
Opening Cash	30	17	1,542	7,951
Closing Cash	5	1,542	7,951	15,051

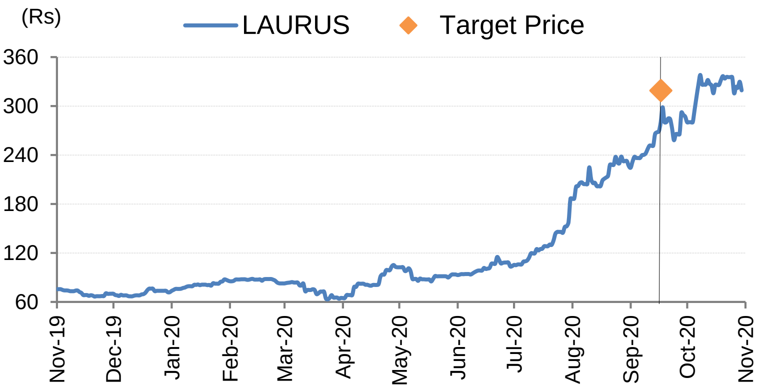
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Sep-20	ACCUMULATE	319	280

*Price as on recommendation date

DART Team

Purvag Shah	**Managing Director**	**purvag@dolatcapital.com**	**+9122 4096 9747**
Amit Khurana, CFA	**Head of Equities**	**amit@dolatcapital.com**	**+9122 4096 9745**

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	**Designation**	**E-mail**	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

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SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685
Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu
Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com