

### Strong beat in Q3, guidance reiterated

Laurus reported robust 3Q beating our estimates primarily driven by stellar growth in first line ARV APIs such as Efavirenz and DTG. Both gross and EBITDA margins at 55% and 31% for 9MFY21 have been strong despite higher contribution from ARV API, implying stable pricing and higher volumes. Further, leveraging its backward integration, Laurus has demonstrated commendable execution capability in the formulations segment and remains confident of growth sustenance in near term.

While debottlenecking activity is expected to expand formulations capacities (~20%) in 4QFY21/early 1QFY22), majority of the capex is expected to be operational by Jun 2022. In the interim, formulations are expected to ramp up amid new launches such TLE 400 in LMIC and the US. Further, it has entered into a partnership with a European generic player for contract manufacturing. In order to scale up this segment and cater to other players, the company plans to double the capacity to 2bn units p.a. over the next 18 months. USFDA compliance, pricing pressure in ARVs are key risks.

Basis the outperformance, we raise our earnings estimates by 10% each for FY21/22. We project 17% PAT CAGR while top-line is expected to grow at 15% 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 (Cardiac and diabetes) and CDMO. At CMP, the stock trades at 19.4x FY22E and 16.1x FY23E. Our target price of Rs426 values the stock at 19x FY22 earnings. **Maintain BUY.**

### Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	12,884	7,296	76.6	11,388	13.1
Total Expense	8,621	5,814	48.3	7,650	12.7
EBITDA	4,263	1,482	187.7	3,739	14.0
Depreciation	516	476	8.6	510	1.3
EBIT	3,747	1,006	272.3	3,229	16.0
Other Income	69	19	260.2	51	35.4
Interest	174	208	(16.3)	137	27.4
EBT	3,642	817	345.7	3,143	15.9
Tax	913	82	1008.5	720	26.7
RPAT	2,729	735	271.4	2,423	12.6
APAT	2,729	735	271.4	2,423	12.6
			(bps)		(bps)
Gross Margin (%)	54.7	50.6	416	56.0	(124)
EBITDA Margin (%)	33.1	20.3	1278	32.8	26
NPM (%)	21.2	10.1	1111	21.3	(10)
Tax Rate (%)	25.1	10.1	1499	22.9	215
EBIT Margin (%)	29.1	13.8	1529	28.4	73

CMP	Rs 345
Target / Upside	Rs 426 / 23%
NIFTY	13,635

### Scrip Details

Equity / FV	Rs 1,072mn / Rs 10
Market Cap	Rs 185bn
	USD 3bn
52-week High/Low	Rs 386/ 59
Avg. Volume (no)	4,129,320
Bloom Code	LAURUS IN

Price Performance	1M	3M	12M
Absolute (%)	(2)	8	301
Rel to NIFTY (%)	(2)	8	307

### Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	32.1	32.1	28.7
MF/Banks/FIs	48.8	45.1	50.2
FII	16.1	20.7	19.9
Public / Others	3.0	2.1	1.2

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	21.7	19.0	15.7
EV/EBITDA	14.2	12.6	10.4
ROE (%)	38.9	31.3	28.1
RoACE (%)	27.6	23.5	22.6

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	43,178	50,018	56,670
EBITDA	13,700	14,950	17,269
PAT	8,544	9,733	11,784
EPS (Rs.)	15.9	18.2	22.0

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**Exhibit 1: Revenue Break-up**

Particulars (Rs mn)	Q3FY21	Q3FY20	% YoY	Q2FY21	% QoQ	9MFY20	9MFY21	% YoY	FY20	FY21E	% YoY
Generic API	7,310	3,583	104.0	5,710	28.0	11,324	18,240	61.1	16,094	21,931	36.3
ARV	5,680	2,140	165.4	3,790	49.9	7,844	12,830	63.6	10,863	14,915	37.3
Oncology	640	468	36.8	860	-25.6	1,515	2,010	32.7	2,106	2,485	18.0
Other APIs	990	975	1.5	1,060	-6.6	1,965	3,400	73.0	3,125	4,531	45.0
Generic FDFs	4,300	2,921	47.2	4,520	-4.9	5,580	12,340	121.1	8,253	16,506	100.0
Synthesis	1,270	617	105.8	820	54.9	1,810	3,090	70.7	3,114	3,799	22.0
Ingredients	0	179	-100.0	340	-100.0	636	340	-46.6	856	942	10.0
<b>Total Sales</b>	<b>12,880</b>	<b>7,300</b>	<b>76.4</b>	<b>11,390</b>	<b>13.1</b>	<b>19,350</b>	<b>34,010</b>	<b>75.8</b>	<b>28,317</b>	<b>43,178</b>	<b>52.5</b>

Source: DART, Company

### Concall Highlights

- **Sales Mix:** ARVs constitute 55% of total sales currently. This is going to change to 45% 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. **It is globally number one player in ARV API and number 3 in ARV formulations.**
- **Guidance:** Management reiterated that there is no one off or bunched up sales in 9M 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 4Q basis the order-book visibility. Working capital cycle will be elevated due to higher inventory build-up.
- **Formulations:** 47% YoY growth led by higher volumes and market share gains across tender based LMIC, TLE400 & 600 launch in the US and contract manufacturing in EU. Formulations revenue split is 75% LMIC and 25% in US&EU. Per the management, it continues to grab market share in TLE and is maintaining its market share in TLD.
  - **ARV:** The drug dispensing methodology is sustaining at 90/180 dosages vs 30 dosages earlier. Management believes that there is no bunched up sales and this multi-month dispensing method should continue. Laurus has highest market share in DTG APIs and is third highest in the formulations
  - **EU:** Company stated that order book visibility remains robust for contract manufacturing in the EU for FY21 and beyond. Company has 9 filings in EU.
  - **US:** It has commenced marketing of 2 in-licensed products in the US through its own front end. Expected to grow sharply in FY22 on the back of 3 new launches in 1QFY22E.
- **API:** API segment reported 96% YoY growth in Q3 led by strong volume growth in the ARV segment. Contribution of ARV segment (both API and formulation) has come down to 36% in FY20 from 61% in FY19. Management guides this dependency to reduce further.
  - **ARV** segment growth was driven by TLD sales where Laurus claims it has 1/3<sup>rd</sup> 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 was flattish YoY due to change in delivery schedule. Sales remain lumpy due to higher contract manufacturing orders from Europe
- **CRAMS:** As on 9MFY21, Laurus is working on 49 active projects and 4 are commercialized. It believes that sales from Aspen Pharma has peaked out and expects growth momentum to start from FY23E. The greenfield facility (Hormones, steroids and large molecules) at Vizag for custom synthesis is expected to commensurate from next year, thereby aiding the growth. In the interim, company is undertaking its brownfield expansion at Genome valley in Hyderabad.
- **Capex:** Of the planned capex of Rs12bn over the next 2 years, 9MFY21 capex stood at Rs4.3bn. Laurus acquired second site for formulations at Hyderabad.
- **Others:** Gross debt is Rs1.1bn, R&D spend is 4% of sales.

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>28,317</b>	<b>43,178</b>	<b>50,018</b>	<b>56,670</b>
<b>Total Expense</b>	<b>22,672</b>	<b>29,478</b>	<b>35,068</b>	<b>39,401</b>
COGS	14,134	19,065	22,137	24,962
Employees Cost	3,449	4,234	4,911	5,568
Other expenses	5,089	6,179	8,021	8,872
<b>EBIDTA</b>	<b>5,645</b>	<b>13,700</b>	<b>14,950</b>	<b>17,269</b>
Depreciation	1,873	2,060	2,369	2,724
<b>EBIT</b>	<b>3,773</b>	<b>11,640</b>	<b>12,581</b>	<b>14,545</b>
Interest	896	627	596	566
Other Income	59	255	850	1,561
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>2,936</b>	<b>11,268</b>	<b>12,835</b>	<b>15,540</b>
Tax	383	2,723	3,102	3,756
RPAT	2,553	8,544	9,733	11,784
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>2,553</b>	<b>8,544</b>	<b>9,733</b>	<b>11,784</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	1,069	1,072	1,072	1,072
Minority Interest	0	0	0	0
Reserves & Surplus	16,629	25,173	34,906	46,690
<b>Net Worth</b>	<b>17,698</b>	<b>26,245</b>	<b>35,978</b>	<b>47,762</b>
Total Debt	9,555	11,555	12,555	11,555
Net Deferred Tax Liability	622	678	741	810
<b>Total Capital Employed</b>	<b>27,875</b>	<b>38,479</b>	<b>49,274</b>	<b>60,127</b>

**Applications of Funds**

Net Block	<b>17,263</b>	<b>20,784</b>	<b>22,138</b>	<b>22,760</b>
CWIP	672	773	888	1,022
Investments	371	371	371	371
<b>Current Assets, Loans &amp; Advances</b>	<b>18,458</b>	<b>26,988</b>	<b>36,909</b>	<b>47,689</b>
Inventories	9,052	11,061	12,246	13,365
Receivables	7,914	11,729	13,334	14,813
Cash and Bank Balances	17	2,032	8,816	16,661
Loans and Advances	735	1,122	1,301	1,475
Other Current Assets	739	1,045	1,212	1,374
<b>Less: Current Liabilities &amp; Provisions</b>	<b>8,889</b>	<b>10,436</b>	<b>11,031</b>	<b>11,715</b>
Payables	6,156	7,449	7,958	8,547
Other Current Liabilities	2,733	2,988	3,073	3,167
<i>sub total</i>				
Net Current Assets	9,569	16,552	25,877	35,974
<b>Total Assets</b>	<b>27,875</b>	<b>38,479</b>	<b>49,274</b>	<b>60,127</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	50.1	55.8	55.7	56.0
EBIDTA Margin	19.9	31.7	29.9	30.5
EBIT Margin	13.3	27.0	25.2	25.7
Tax rate	13.1	24.2	24.2	24.2
Net Profit Margin	9.0	19.8	19.5	20.8
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	49.9	44.2	44.3	44.0
Employee	12.2	9.8	9.8	9.8
Other	18.0	14.3	16.0	15.7
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.5	0.4	0.3	0.2
Interest Coverage	4.2	18.6	21.1	25.7
Inventory days	117	93	89	86
Debtors days	102	99	97	95
Average Cost of Debt	9.4	5.9	4.9	4.7
Payable days	79	63	58	55
Working Capital days	123	140	189	232
FA T/O	1.6	2.1	2.3	2.5
<b>(D) Measures of Investment</b>				
AEPS (Rs)	4.8	15.9	18.2	22.0
CEPS (Rs)	8.3	19.8	22.6	27.1
DPS (Rs)	0.8	2.4	2.4	2.4
Dividend Payout (%)	17.7	15.1	13.3	11.0
BVPS (Rs)	33.0	49.0	67.1	89.1
RoANW (%)	15.3	38.9	31.3	28.1
RoACE (%)	12.9	27.6	23.5	22.6
RoAIC (%)	14.2	36.2	32.7	34.7
<b>(E) Valuation Ratios</b>				
CMP (Rs)	345	345	345	345
P/E	72.5	21.7	19.0	15.7
Mcap (Rs Mn)	185,108	185,108	185,108	185,108
MCap/ Sales	6.5	4.3	3.7	3.3
EV	194,646	194,631	188,847	180,002
EV/Sales	6.9	4.5	3.8	3.2
EV/EBITDA	34.5	14.2	12.6	10.4
P/BV	10.5	7.1	5.1	3.9
Dividend Yield (%)	0.2	0.7	0.7	0.7
<b>(F) Growth Rate (%)</b>				
Revenue	23.6	52.5	15.8	13.3
EBITDA	58.6	142.7	9.1	15.5
EBIT	96.7	208.5	8.1	15.6
PBT	145.2	283.8	13.9	21.1
APAT	172.2	234.7	13.9	21.1
EPS	172.2	234.7	13.9	21.1

**Cash Flow**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	3,305	6,487	10,369	13,028
CFI	(2,265)	(5,681)	(3,839)	(3,480)
CFF	(1,066)	1,208	253	(1,702)
FCFF	1,041	806	6,531	9,547
Opening Cash	30	17	2,032	8,816
Closing Cash	5	2,032	8,816	16,661

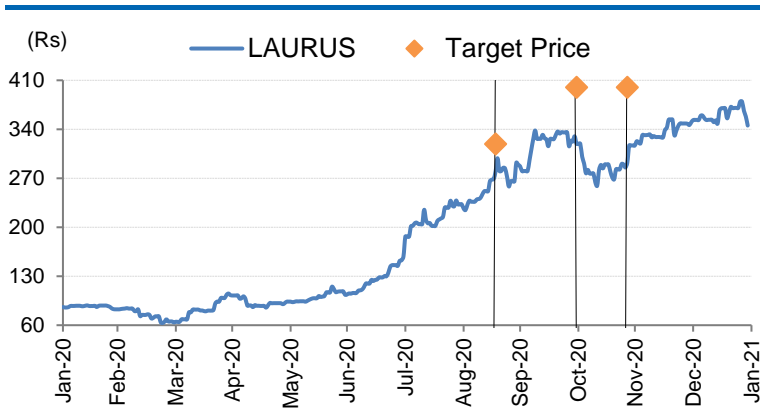
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Sep-20	Accumulate	319	280
Oct-20	Accumulate	400	319
Nov-20	Buy	400	292

\*Price as on recommendation date

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