



Powered by the Sharekhan 3R Research Philosophy

Laurus Labs Ltd

Long-term growth levers intact

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	■	↔	■

ESG Disclosure Score NEW

ESG RISK RATING
Updated Oct 08, 2021 43.39

Severe Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

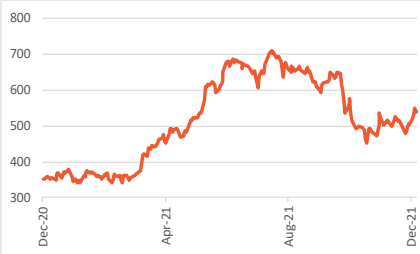
Company details

Market cap:	Rs. 28,934 cr
52-week high/low:	Rs. 723.5 / 333
NSE volume: (No of shares)	29.0 lakh
BSE code:	540222
NSE code:	LAURUSLABS
Free float: (No of shares)	39.0 cr

Shareholding (%)

Promoters	27.3
FII	24.9
DII	4.8
Others	43.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.1	-12.6	-20.7	52.6
Relative to Sensex	4.0	-11.2	-31.7	30.6

Sharekhan Research, Bloomberg

Pharmaceuticals

Sharekhan code: LAURUSLABS

Reco/View: Buy



CMP: Rs. 539

Price Target: Rs. 735



Upgrade



Maintain



Downgrade

Summary

- The DCGI's restricted emergency use approval for first oral anti covid pill – Molnupiravir bodes well for Laurus Labs Limited (Laurus) and opens up substantial growth opportunities.
- Recent acquisition of a stake in an advanced cell & gene therapy player – ImmunoACT opens up access to new and advanced areas of CAR-T Therapies in Oncology space and is a potential positive
- Based on sturdy growth prospects across segments – FDF, Synthesis & Bio, well supported by capacity expansion plans, management has retained its revenue guidance of \$1 bn by FY2023E
- Overall, while near-term headwinds – ARV API channel de-stocking and high costs, could overweigh on the performance, long-term growth levers stay intact. Hence, we reiterate our Buy recommendation with an unchanged PT of Rs. 735.

Laurus Labs Limited (Laurus) is expected to benefit from Drug Controller General of India's (DCGI) restricted emergency use approval (EUA) for the first oral anti-COVID pill, Molnupiravir. Given the new variant of concern, Omicron, emerging, demand could increase substantially in India as well as in low and middle income countries (LMICs) for which Laurus has contract with Medicine Patent Pool (MPP). Further, the recent stake acquisition in ImmunoAdaptive Cell Therapy (ImmunoACT) provides Laurus access to advanced CAR-T therapies (indicated for multiple auto immune diseases and oncology indications). In India, CAR-T therapy is unavailable, and this collaboration will help Laurus bring the novel technology for India markets at affordable pricing. In addition to this, growth prospects for synthesis, FDF, and bio segments stay bright and would drive the company's overall performance.

- Regulatory approval for Molnupiravir to offer sizeable growth opportunities:** Recently, DCGI has issued restricted emergency use approval for the first oral anti-COVID drug – Molnupiravir – for treating adult COVID-19 patients, following an EUA by the USFDA. Merck, Sharpe & Dohme (MSD), who has jointly developed Molnupiravir, has entered in to an agreement with MPP for Molnupiravir for LMICs. Laurus, in turn, has a contract with MPP for Molnupiravir for LMICs, including India. With the onset of the new variant of concern – Omicron, the DCGI's approval and MPP contract collectively point at substantial growth opportunities for Laurus.
- ImmunoACT stake acquisition to be a long-term growth driver:** Laurus had recently entered in to an agreement to acquire a 26.6% stake in ImmunoACT, which is an advanced cell and gene therapy company and has a portfolio of CAR-T cell therapy assets under various development stages for treatment of multiple auto immune diseases and oncology indications. The CAR-T therapy is an advanced therapy and offers material advantages over the existing therapy areas of chemotherapy/stem cell transplant. In India, CAR-T therapy is unavailable and this collaboration will help Laurus bring this novel technology for Indian markets at a very affordable pricing, which bodes well from a growth perspective.
- Strong traction to sustain across synthesis, FDF, and bio, near-term challenges for API:** The synthesis business is set to stage strong double-digit growth going ahead, backed by new customer additions, new product additions, and growth from existing customers. Moreover, recent multiyear contract wins from a global life science company bodes well for the synthesis segment's growth. Doubling of the FDF segment capacity to 10 billion tablets per annum and sustained traction would drive the FDF segment's sales, while commissioning of 2 fermenters with a 45,000 KL capacity each in 2HFY2022 would fuel Laurus Bio segment's growth. The API segment's performance is expected to be impacted by transient issues and is expected to revive by the end of 2HFY2022. Consequently, management has retained its revenue target of \$1billion by FY2023, which bodes well.

Our Call

Valuation – Reiterate Buy with an unchanged PT of Rs. 735: The DCGI's restricted EUA for the first oral anti-COVID-19 pill – Molnupiravir – bodes well for Laurus and opens up substantial growth opportunities. Recent acquisition of a stake in an advanced cell and gene therapy player – ImmunoACT – opens up access to new areas of CAR-T Therapies in the oncology space and is a potential positive. Based on sturdy growth prospects across segments, well supported by capacity expansion plans, management has retained its revenue guidance of \$1 billion by FY2023E. At the CMP, the stock trades at 25.3x/18x its FY2022E/FY2023E EPS and the stock price had corrected by ~24% in the past four months. While near-term headwinds – channel de-stocking and high costs – could overweigh on the performance, long-term growth levers stay intact. Hence, we reiterate our Buy recommendation with an unchanged price target (PT) of Rs. 735.

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	5910.0	7739.0	9246.1
Operating Profits	564.5	1550.7	1861.7	2553.9	3079.0
OPM(%)	19.9	32.2	31.5	33.0	33.3
PAT	255.3	983.9	1135.0	1593.1	1948.1
EPS	4.8	18.5	21.3	29.9	36.6
P/E	112.3	29.1	25.3	18.0	14.7
EV/EBIDTA	52.5	19.3	16.1	11.7	9.4
ROE (%)	14.4	37.9	30.4	29.9	26.8
ROCE (%)	13.2	32.2	29.4	31.7	29.9

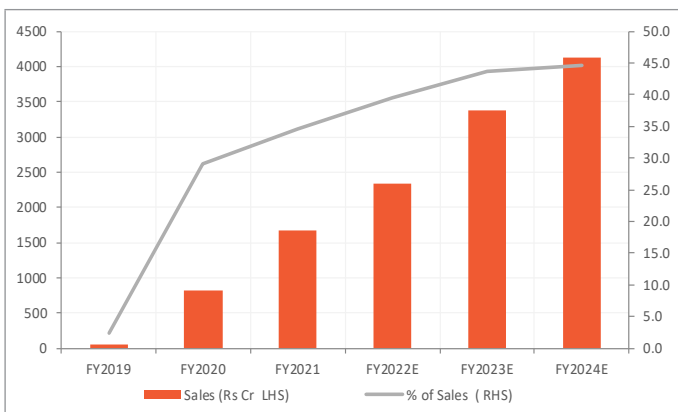
Source: Company; Sharekhan estimates

Regulatory approval for Molnupiravir to offer sizeable growth opportunities: Recently, the DCGI has issued the EUA for the first oral anti-COVID drug – Molnupiravir – for treating adult patients suffering from COVID. Molnupiravir has been jointly developed by MSD in collaboration with Ridgeback Therapeutics and, consequently, MSD and Medicines Patent Pool (MPP) have entered in to an agreement for Molnupiravir for LMIC including India. Laurus has a contract with MPP for Molnupiravir to cater to LMIC’s; and the DCGI’s approval for the drug for India could open up substantial opportunities for Laurus as with the onset of the new variant of concern – Omicron, COVID cases could increase and this, in turn, could add to the topline growth of Laurus.

ImmunoACT stake acquisition to be a long-term growth driver for Laurus: Laurus had signed an agreement with ImmunoACT to acquire a 26.6% stake in the latter for a cash consideration of Rs. 46 crore. In addition to this, the senior management of Laurus would also be investing Rs. 9.76 crore for a 5.64% stake in ImmunoACT, which was founded under IIT Bombay incubator – Society for Innovation and Entrepreneurship (SINE) by Dr. Rahul Purwar in 2018. ImmunoACT is an advanced cell and gene therapy company and has a portfolio of CAR-T cell therapy assets under various development stages for treatment of multiple auto immune diseases and oncology indications. CAR-T therapy is an emerging therapy for Leukemia and Lymphoma, which are a type of cancer. The therapy has some material advantages over the existing chemo therapy/stem cell transplant treatments such as lesser treatment time, better efficacy, and safety levels, which augur well. ImmunoACT has a portfolio of four CAR-T therapy assets under various development stages for the treatment of multiple autoimmune diseases and oncology indications and has strong global partnerships, including the one with Dr. Carl June, pioneer of CAR-T therapy as member of scientific advisory board, which bodes well. The acquisition of the stake in the company would provide Laurus access to CAR-T therapy, which currently is not available in India and, in turn, Laurus would provide this therapy to Indians at affordable prices. Further, Laurus has already paid the subscription amount of Tranche-1 to ImmunoACT.

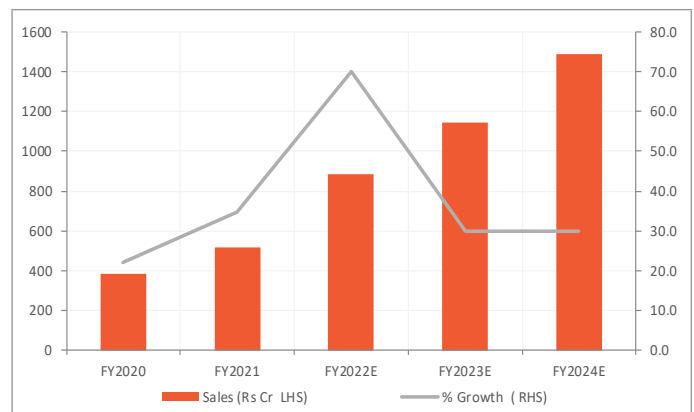
Strong traction seen across synthesis, FDF, and bio businesses: Laurus’ synthesis business is on a strong footing and the revenue has staged strong 62% y-o-y growth to Rs. 350 crore for 1HFY2022, backed by new customer additions, new product additions, and growth from existing customers. Moreover, recently Laurus has entered in to a multiyear contract with a global life science company and the scope involves developing and manufacturing molecules. Laurus would be setting up a dedicated facility for the same with an expected investment of Rs. 450 crore. Benefits from the contract are expected to accrue from FY2025 and provides ample visibility on long-term growth. Further, the generic FDF segment’s sales are likely to grow strongly by 26% y-o-y to Rs. 1,016 crore in 1HFY2022; and growth momentum is expected to improve going ahead. Laurus in 1HFY2022 commissioned additional 1 billion tablets capacity and has planned to commission another 4 billion tablet capacity by the end of 2HFY2022, thus doubling the FDF segment’s capacity to 10 billion tablets per year, which is substantial. Material benefits from capacity expansion plans are likely to be visible in FY2023. Further, the company has commenced two fermentation capacities with a capacity of 45,000 KL each in 1HFY2022 under Laurus Bio and has plans to commence two more fermenters with a capacity of 45,000 KL each in H2FY2022 as well. Incremental capacities coming on stream would support growth and, in turn, drive revenues. However, performance of the API business is expected to be under stress, impacted by transient issues such as channel de-stocking; and management expects revival by the end of 2HFY2022. Consequently, management has retained its revenue target of \$1 billion by FY2023, which bodes well.

Synthesis Business to stage strong double digit growth



Source: Company, Sharekhan Research

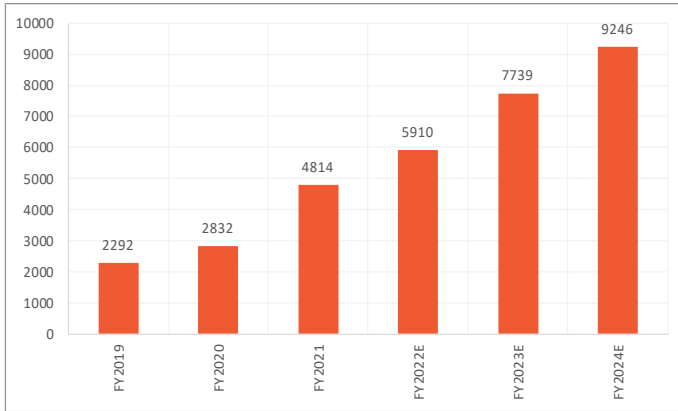
Formulation Sales to grow strongly



Source: Company, Sharekhan Research

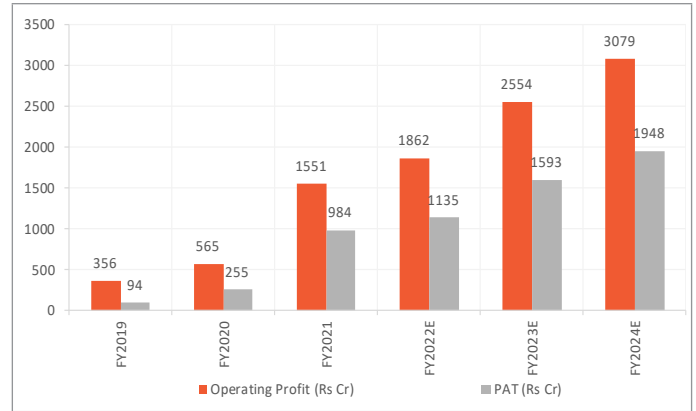
Financials in charts

Sales Trends (Rs Cr)



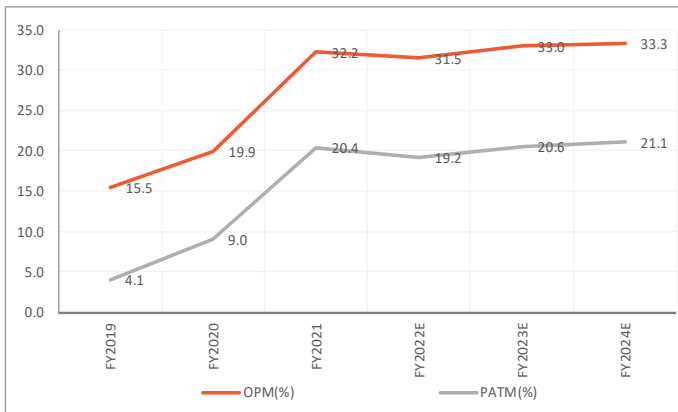
Source: Company, Sharekhan Research

Operating Profit - PAT Trends



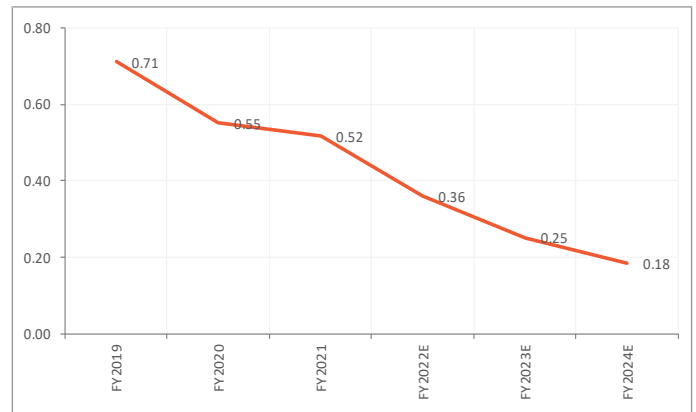
Source: Company, Sharekhan Research

Margin Trends



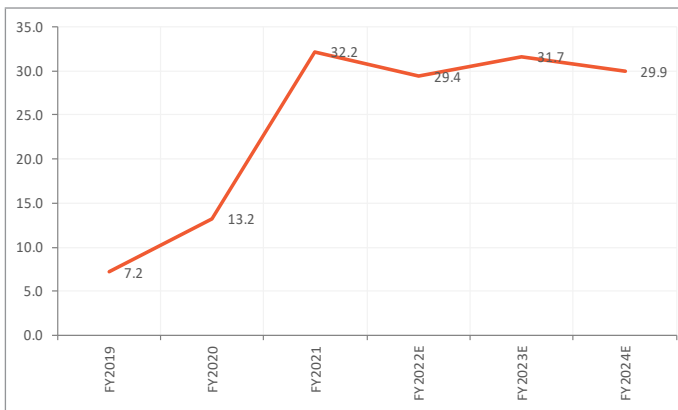
Source: Company, Sharekhan Research

Improving Leverage



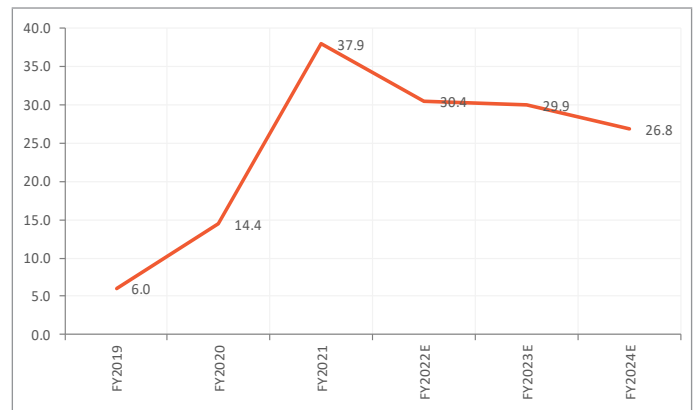
Source: Company, Sharekhan Research

RoCE Trend (%)



Source: Company, Sharekhan Research

Return ratios to improve (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), rise in product approvals, plant resolutions by the USFDA, 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 pharma companies.

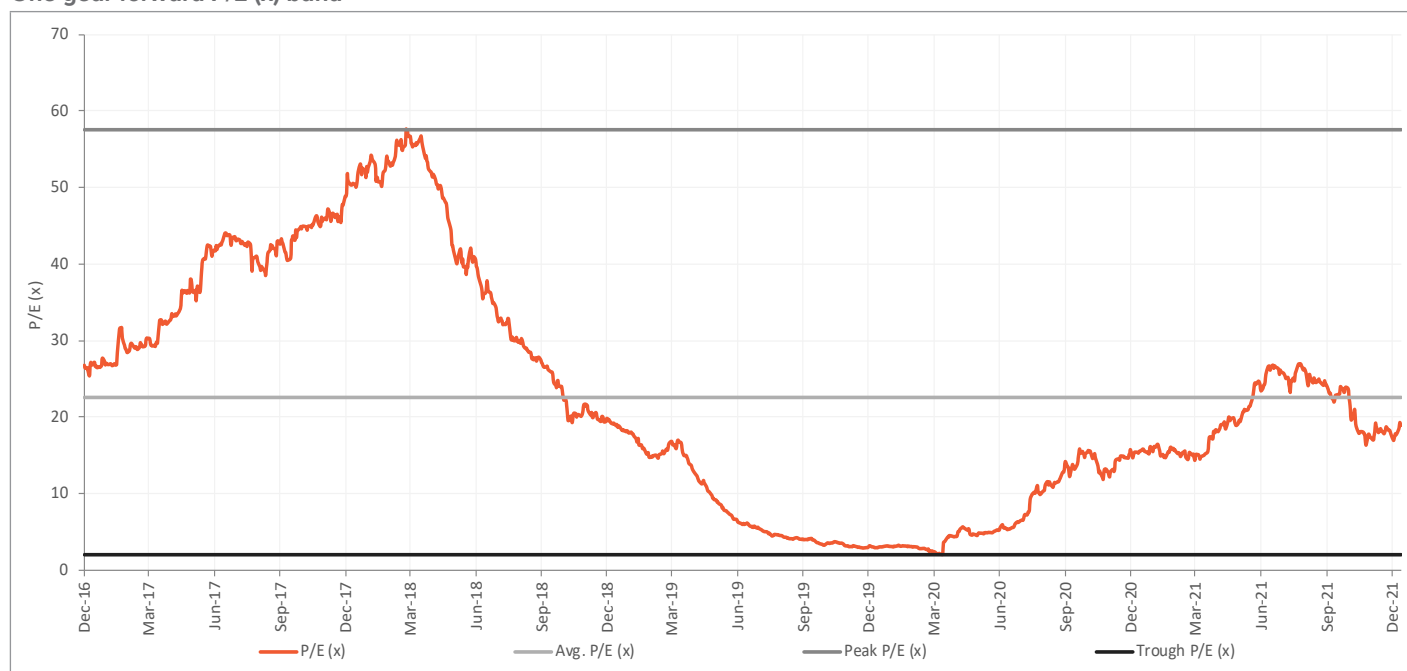
■ Company Outlook – Long-term levers intact

All of Laurus' businesses have a strong 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, Laurus is 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 to non-ARVAPIs of cardiology and diabetology and is in the process to 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 commercialisation of new products. Management is quite optimistic on the performance of the synthesis division and sees this as one of the key growth drivers. 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 favourable product mix would result in operating profit margin (OPM) expansion. However, channel de-stocking for ARV API and input cost pressures could act as near-term headwinds/transient issues and would slow down growth.

■ Valuation – Reiterate Buy with an unchanged PT of Rs. 735

The recent DCGL's EUA for the first oral anti-COVID pill – Molnupiravir – bides well for Laurus and opens up substantial growth opportunities, as Laurus, through a tie-up with MPP, has the opportunity to cater to demand for LMICs, including India for Molnupiravir. Moreover, the recent acquisition of a stake in an advanced cell and gene therapy player – ImmunoACT opens up access to new areas of CAR-T Therapies in the oncology space, which offer advantages over the existing line of treatments and is a potential positive for Laurus. Backed by a strong product portfolio and capacity expansion plans, the FDF segment is on track to sustain the strong growth trajectory. Growth in business from existing customers, new client additions, and capex plans would be key drivers for the synthesis business, while commissioning of new fermentation capacity would drive the performance for Laurus Bio. Escalating raw-material prices and channel destocking for the ARV-APIs are likely to be transient in nature and management expects ARV-API's performance to revive towards the end of 2HFY2022. At the CMP, the stock trades at 25.3x/18X its FY2022E/FY2023E EPS and the stock price has corrected ~24% in the past four months. While near-term headwinds could outweigh on the performance, the company's long-term growth levers are intact. Hence, we reiterate our Buy recommendation on the stock with an unchanged PT of Rs. 735.

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	539.0	53.2	28,933.6	29.1	25.3	18.0	19.3	16.1	11.7	37.9	30.4	29.9
Granules	336	45.3	8,336	15.1	19.1	14.2	10.2	12.3	9.0	25.3	17.0	19.5
Solara Active Pharma Science	1020	3.5	3666	16.4	21.8	13.3	10.2	11.1	7.6	13.9	9.7	14.0

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. The company 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. Overall, in the wake of an expected robust growth outlook, Laurus has embarked on a massive capex programme for the next two years, which provides ample growth visibility.

Key Risks

- ◆ Slower-than-expected ramp-up in formulations, API, or custom synthesis businesses.
- ◆ Reforms in the healthcare industry and uncertainty associated with pharmaceutical pricing could affect the company's 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 and Head, Quality
Mr. Krishna Chaitanya Chava	Head – Synthesis Division

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Amansa Holdings Pvt Ltd	5.0
2	Capital Group cos Inc	2.9
3	Vanguard Group Inc	2.3
4	Norges Bank	1.7
5	BlackRock inc	1.2
6	Societe Generale	1.1
7	HEM Healthcare Investments Cayman	0.7
8	Kotak Mahindra Asset management Company Limited	0.5
9	Mathews International Capital Managemnt LLC	0.5
10	Dimensional Fund Advisors	0.4

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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