

Laurus Labs (LAULAB)

₹ 548

Formulation foray based on legacy API model...

We met the management of Laurus Labs (Laurus) to understand the business model and its future plans. The company is a leading Indian active pharma ingredient (API) manufacturer with a leadership position in the therapeutic areas of anti-retroviral (ARVs or anti-AIDS- 64% of FY17 revenues) and Hepatitis C (13% of FY17 revenues). Apart from these, Laurus is also into oncology APIs (15 DMF filings), other therapeutic APIs, synthesis business and nutraceutical/cosmeceuticals ingredients businesses. As of H1FY18, the company has commercialised 59 products and filed 44 DMFs. Laurus has forayed into formulation. However, actual revenues are expected to start from FY19.

One of the largest global ARV API manufacturers

The company is a major ARV API supplier to players that predominantly supplies ARV formulations to the South African tender business. Laurus has a leadership position in the manufacture of ARV APIs globally with dominating share in Efavirenz (~60 market share), Tenofovir (~35% market share) and Emtricitabine (~25% market share). The company is also ready with Dolutegravir (DTG) and lamivudine APIs to capture second line treatment and other tender markets opportunities. The management believes there are significant growth opportunities in this area as a result of an expected increase in the HIV patient pool (~2 million new cases every year) with the current WHO guidelines recommending initiating early treatment for infected HIV patients, regardless of age and viral load. As per ARV report estimates, more than 50% (2016) adults living with HIV do not have any access to HIV treatment. WHO has set a target to cover 28 million people to have access to HIV treatment by 2021 from current 17 million (2016). Also, patent expiry of big ticket ARV drugs Atripla (US\$ 1.9 billion) and Truvada (US\$ 2.4 billion) in FY19 will create near term opportunity in the US.

Hepatitis C and Custom synthesis – Margin Accretive businesses

Laurus supplies Hepatitis C APIs to Natco Pharma under equal revenue sharing partnership. Due to an exclusive partnership, the company fetches better margins in this segment. However, due to increase in competition in domestic market and price erosion, the company expects actual growth from this segment to emanate from geographical expansion. Custom synthesis segment (5% of revenue) is small but highest margin generating and fastest growing segment. The company has an agreement with South Africa based Aspen Labs to develop hormonal intermediates for which it has established a dedicated block. It expects meaningful revenues from this segment to start from FY20.

Foray into formulations

The company has spent ~₹ 350 crore till date for a dedicated formulation block. It recently filed a dossier with WHO and eight ANDA applications in the US (one tentative approval). Currently, it has contracts with Citron Pharma, Natco and Dr Reddy's for development of formulations in several therapeutic areas on a profit and cost sharing basis. The company expects actual revenue from this segment to commence from FY19. It is looking to file for South African ARV tender business, which is expected to open in H2FY18. In the formulation segment currently, it would target only select products for which it has its own API backup. The stock is currently trading at ~30x FY17 EPS of ₹ 18.

Rating matrix		
Rating	:	Unrated
Target	:	NA
Target Period	:	NA
Potential Upside	:	NA

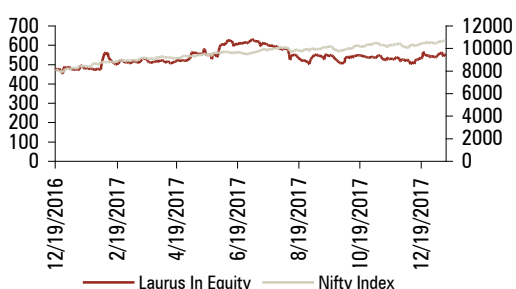
Key financials				
(₹ crore)	FY14	FY15	FY16	FY17
Total Revenues	1,159.7	1,326.6	1,777.6	1,904.7
EBITDA	208.9	200.2	362.2	407.6
EBITDA Margins	18.0	15.1	20.4	21.4
PAT	96.9	68.4	134.0	190.6
EPS	9.1	6.4	12.6	18.0

Valuation summary				
	FY14	FY15	FY16	FY17
PE (x)	60.0	85.0	43.4	30.5
M.Cap/ Revenues (x)	5.0	4.4	3.3	3.1
EV to EBITDA (x)	31.8	33.2	18.4	16.3
Price to book (x)	15.5	7.9	6.7	4.0
RoE (%)	27.1	9.5	15.6	14.3
RoCE (%)	20.5	11.2	14.9	15.4

Stock data	
Particular	Amount
Market Capitalisation	₹ 5810 crore
Debt (FY17)	₹ 842 crore
Cash (FY17)	₹ 2 crore
EV	₹ 6649 crore
52 week H/L	640/419
Equity capital	₹ 106.0 crore
Face value	₹ 10

Price performance				
	1M	3M	6M	1Y
Laurus	8.7	0.6	-8.3	15.6
Granules	10.2	7.7	3.2	40.6
Neuland Lab	-4.5	-25.2	-36.0	-14.4

Price chart



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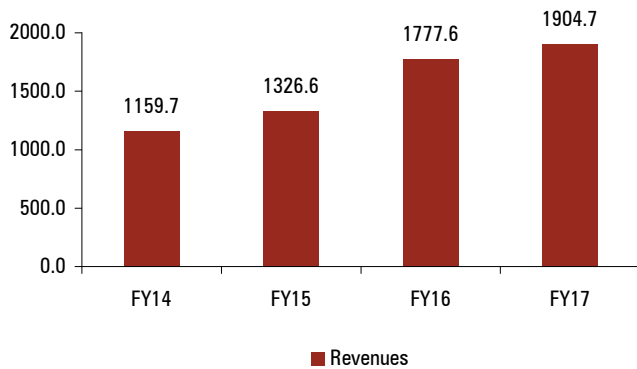
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Exhibit 1: Financial Performance

	FY14	FY15	FY16	FY17	H1FY18
Total Revenues (₹ crore)	1,159.7	1,326.6	1,777.6	1,904.7	1,017.0
EBITDA (₹ crore)	208.9	200.2	362.2	407.6	209.1
EBITDA Margins	18.0	15.1	20.4	21.4	20.6
PAT (₹ crore)	96.9	68.4	134.0	190.6	87.7
EPS (₹)	9.1	6.4	12.6	18.0	8.3
RoE (%)	27.1	9.5	15.6	14.3	NA
RoCE (%)	20.5	11.2	14.9	15.4	NA
PE (x)	26.7	49.0	36.8	35.5	NA
EV/EBITDA (x)	31.8	33.2	18.4	16.3	NA

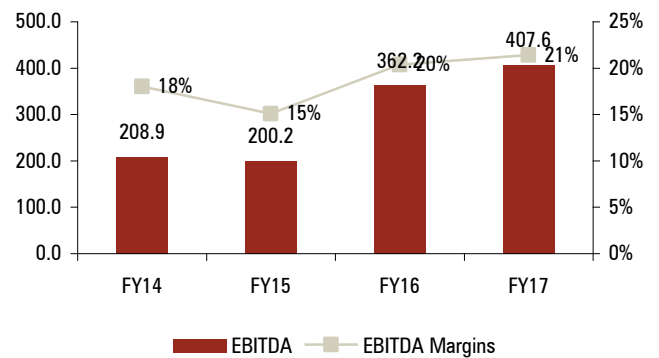
Source: Company, Capital line, ICICIdirect.com Research

Exhibit 2: Revenues (₹ crore)



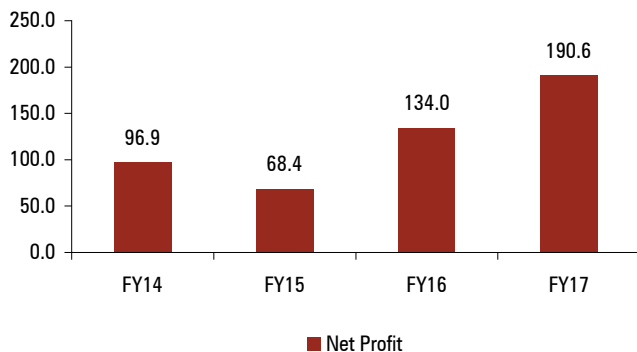
Source: Company, ICICIdirect.com Research

Exhibit 3: EBITDA (₹ crore) and EBITDA margins



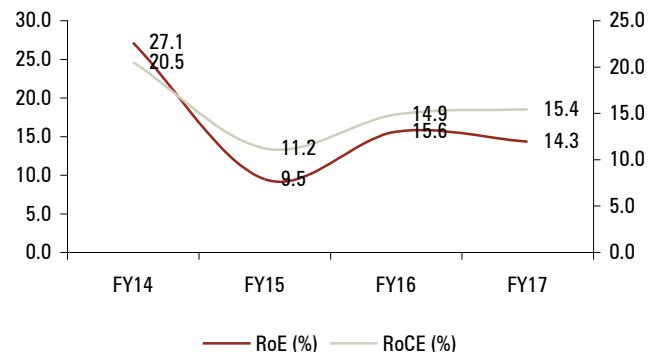
Source: Company, ICICIdirect.com Research

Exhibit 4: PAT (₹ crore)



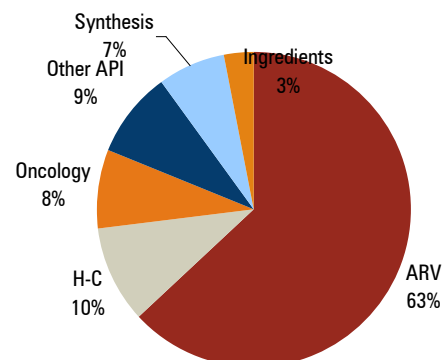
Source: Company, ICICIdirect.com Research

Exhibit 5: Return ratios



Source: Company, ICICIdirect.com Research

Exhibit 6: Segment Bifurcation (1HFY18)



Source: Company, ICICIdirect.com Research

Exhibit 7: Facility Overview

Facilities	Location	Use	Approved
Unit I	Vishakapatnam	API	US FDA, WHO-Geneva, NIP Hungary, KFDA and PMDA
Unit II	Visakhapatnam	API and formulation	US FDA for API and FDF
Unit III	Vishakapatnam	API	FDA and WHO – Geneva
Unit IV	Visakhapatnam	NA	NA
Unit V	Visakhapatnam	API, Hormone and Steroid facility	NA

Source: Company, ICICIdirect.com Research

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Buy: > 10%/15% for large caps/midcaps, respectively;

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