BUY
TP: Rs 480 | ⮝ 36%

LAURUS LABS | Pharmaceuticals | 28 November 2019

NDR takeaways

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CEO roadshow: We recently hosted the management of Laurus Labs with investors. Overall, we found management's tone confident yet realistic. Three key priorities were outlined for the next three years: (1) revive predictability & stickiness in the business, (2) ensure prudent capital allocation vs. growth, (3) move closer to 20% ROCE. Laurus maintained its positive FCF guidance starting FY21 despite Rs 2bn-2.5bn of capex each for FY20/21. Gross debt will be capped at Rs 11bn.

Business mix shift intact: API business will shift away from ARVs to the oncology and cardio-diabetic segments (to contribute >30% of API by FY22 from ~20%). Laurus aims to create a niche in these therapies and be a meaningful integrated player in oncology in the next five years. Formulations and synthesis will be two high-growth segments. Management is bullish on the non-Aspen patented CDMO business and expects over Rs 6bn of revenue in synthesis by FY23 (implying 30% CAGR over FY19). Aspen business should peak out in FY21. Gross margins are guided to stabilise at ~49%; EBITDA margins can improve 100bps p.a.

Restricted capex sufficient to drive 20% formulations growth: Management expects two-thirds of the revenue mix to be driven by LMIC tender supplies in the next few years. Key product catalysts are TLE400/600mg and TEE approvals in H1FY21 which give access to a ~US$ 800mn market opportunity. Meaningful US ramp-up is expected from FY26, led by 20+ in-market molecules (95% of filings are integrated). No greenfield investment at least in the next three years and expect Rs 500mn in maintenance capex per year.

ARV sales to bottom in FY20: Laurus expects the ARV outlook to improve in FY21 and anticipates Rs 12bn in sales (over Rs 10bn FY20E base) due to new supplementary tenders coming in Q1FY21 and Lamivudine supplies. EFA could stabilise at Rs 5bn in FY20. Non-SA ARV business is stable (local funded tenders).

Investment thesis: A consistent increase in EBITDA share from high-margin businesses (synthesis, formulations, other APIs ex-ARV) and sharper turnaround in return ratios could re-rate the stock in coming years. In the next two years, these segments would drive >80% of incremental EBITDA and ROCE of >15% from ~8-9%. While incremental capex timelines have been advanced by a year (led by solid execution on formulations which is ahead of schedule), this would not be FCF-dilutive in our view. Stock valuation is attractive; trading at 7.8x FY21 EV/EBITDA. Retain BUY, TP Rs 480.

Ticker/Price	LAURUS IN/Rs 353
Market cap	US$ 526.6mn
Shares o/s	106mn
3M ADV	US$ 0.4mn
52wk high/low	Rs 419/Rs 303
Promoter/FPI/DII	33%/9%/39%

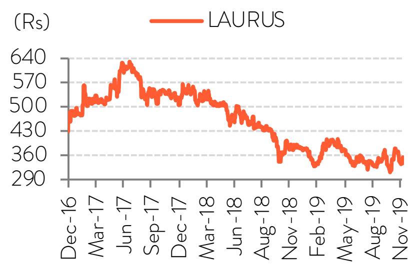
Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20E	FY21E	FY22E
Total revenue (Rs mn)	25,942	29,423	32,693
EBITDA (Rs mn)	4,620	6,220	7,389
Adj. net profit (Rs mn)	1,323	2,451	3,122
Adj. EPS (Rs)	12.4	23.0	29.3
Adj. EPS growth (%)	41.1	85.3	27.4
Adj. ROAE (%)	8.2	13.7	15.3
Adj. P/E (x)	28.4	15.3	12.0
EV/EBITDA (x)	10.5	7.8	6.5

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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BUY – Expected return >+15%

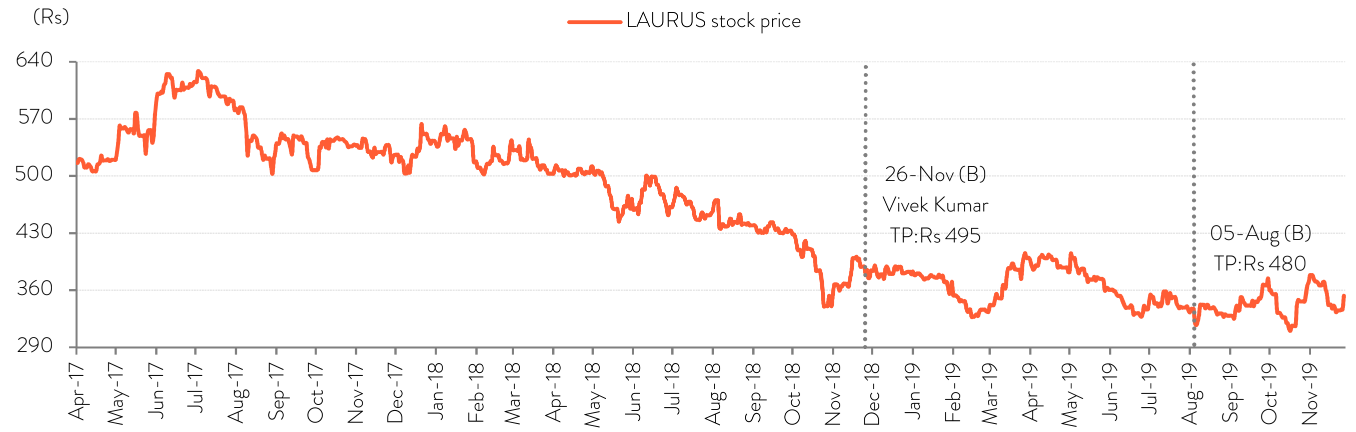
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: LAURUS LABS (LAURUS IN)



Note: B – Buy, A – Add, R – Reduce, S – Sell

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