

Laurus Labs

BSE SENSEX	S&P CNX
44,260	12,987



Bloomberg	LAURUS IN
Equity Shares (m)	532
M.Cap.(INRb)/(USDb)	156.6 / 2.1
52-Week Range (INR)	345 / 62
1, 6, 12 Rel. Per (%)	-18/176/325
12M Avg Val (INR M)	1086

Financials & Valuations (INR b)

Y/E MARCH	FY20	FY21E	FY22E
Sales	28.3	45.7	56.0
EBITDA	5.6	14.6	17.6
Adj. PAT	2.6	9.4	11.1
EBIT Margin (%)	13.3	27.3	26.6
Cons. Adj. EPS (INR)	4.8	17.6	20.8
EPS Gr. (%)	132.6	268.4	18.1
BV/Sh. (INR)	33.1	48.0	65.7

Ratios

Net D:E	0.6	0.4	0.3
RoE (%)	15.3	43.3	36.5
RoCE (%)	12.5	31.0	29.0
Payout (%)	15.1	15.1	15.1

Valuations

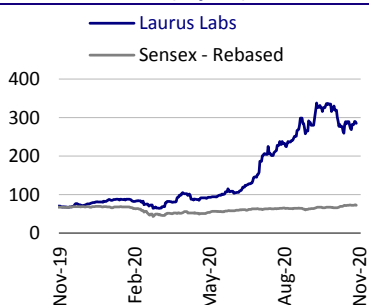
P/E (x)	66.4	18.0	15.3
EV/EBITDA (x)	31.8	12.3	10.2
Div. Yield (%)	0.2	0.7	0.8
FCF Yield (%)	0.6	1.4	1.5
EV/Sales (x)	6.3	3.9	3.2

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	32.1	32.1	32.7
DII	6.3	8.8	32.2
FII	20.7	16.1	12.5
Others	40.8	43.0	22.6

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR292 TP: INR410 (+40%) Buy

Richcore acquisition - A step towards strategic diversification

Biotech ingredients/Enzymes/CDMO – additional areas for long-term growth

- Laurus Labs' (LAURUS) has acquired 73% stake in Richcore Lifesciences (RICH) for a cash consideration of INR2.5b. The acquisition is a step towards building a vertically integrated biotech segment and adds a new lever to growth.
- It particularly provides capabilities in high growth areas of Recombinant (Rh) Proteins, Enzymes and Biological Contract Development and Manufacturing Organization (CDMO).
- We raise our FY22E/FY23E EPS estimates by 3% to arrive at our target price of INR410/share, on 18x 12M forward earnings, to reflect benefits of this deal accruing to LAURUS. Considering the addition of technology-based high entry barriers/superior RoCE business, we expect the RICH-led CDMO business to result in a re-rating of LAURUS once it starts contributing meaningfully to earnings over the next 4-5 years. Maintain Buy.

RICH acquired at attractive valuations

- RICH recorded sales of INR291m and an EBITDA margin of 39% in 1HFY21. This is largely from its already commercialized facility at Bengaluru.
- The management guided at an overall revenue of INR1.4b and EBITDA margin to sustain at 39% for FY22E after the start of operations at the Tumkur facility. This translates to an attractive EV/EBITDA of 6.3x.
- RICH has large scale fermentation capabilities and manufactures animal origin free (AOF) Rh products.
- These products help vaccine, insulin, stem-cell based regenerative medicine and other biopharma customers to eliminate dependency on animal/human blood derived products, and thus ensures production of safer medicines.
- The current promoters led by Mr. Subramani Ramchandrapa will continue to be on the executive board and run the operations.
- Fermentation capacity at Bengaluru is 10,750 liters. A new plant with a fermentation capacity of 1,80,000l is being built in Tumkur, Karnataka and would be operational by 4QFY21.

Highlights from the conference call

- The acquisition would be largely funded via internal accruals.
- Its capex guidance of INR12b, excluding the RICH transaction, over the next two years remains intact.
- The gross block for the Bengaluru/Tumkur facility is ~INR380m/INR500m.
- RICH has a current debt of ~INR60m and would take on an additional debt of INR150m to fund its capex requirements.

Deal to add biotech capabilities, positive in the long run

- The deal adds another pillar to LAURUS' growing chemistry-led franchise. It reduces the typical 6-7 year gestation period required for making inroads into the biotechnology-based CDMO business. With 40% of global New

Research Analyst: Tushar Manudhane (Tushar.Manudhane@motilaloswal.com)

Hitakshi Chandrani (Hitakshi.Chandrani@MotilalOswal.com) / Bharat Hegde, CFA (Bharat.Hegde@motilaloswal.com)

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Chemical Entities (NCEs) under development being biologics, we expect Biotech CDMO to be an attractive proposition in the future as clients increase outsourcing to reduce costs.

- The synergy benefit on account of: a) LAURUS' wide customer base, geographical footprint, strong chemistry skill set, and b) RICH's expertise in biotechnology and fermentation capacity would enable LAURUS to become a dominant player in the CDMO space. It would also enable LAURUS to considerably enhance its skillsets as well as capacity for monoclonal antibodies (MABs) and other biosimilars. We believe the real benefits will begin to accrue over FY23-25E.

Valuation and view

- We raise our FY22E/FY23E EPS estimate by 3%, factoring in additional business from RICH.
- We expect earnings to expand by 5x over FY20-23E, led by a sales CAGR of 50%/39%/22% in the FDF/Synthesis/API segment and ~1100bp margin expansion. We continue to value LAURUS at 18x 12M forward earnings to arrive at our target price of INR410/share.
- We remain positive on LAURUS on the back of: a) superior execution in the ARV segment, b) strong chemistry skillset driving the CDMO business and the addition of a new leg to the CDMO business, which vastly expands its total addressable market, c) the addition of new molecules in the other API segment, and d) cost efficiency aiding profitability. Reiterate **Buy**.

Exhibit 1: RICH's financial summary

Particulars (INR m)	FY20	1HFY21
Sales	414	291
Gross profit	173	203
Gross margin (%)	41.8	69.8
EBITDA	-16	113
EBITDA margin (%)	-3.9	38.8
PBT	-70	92

Source: MOSL, Company



Other highlights from the management commentary

- Capacity at the Tumkur facility is already contracted for two customers and hence there is visibility of commercialization in FY22.
- At present, revenue is split equally between Ingredient, Enzyme and CDMO. With the commercialization of the Tumkur facility, CDMO share in revenue would be higher.
- The management said its customer base at the Bengaluru facility is quite diversified. The majority of its customers are from the US and EU.
- The cost of production remains a critical factor in case of Enzymes, while the technology remains critical for Ingredient and the CDMO businesses.
- The change in product mix led to a sharp improvement in gross margin in 1HFY21 compared to FY20.

Industry background for fermentation and Enzymes

- *The fermentation CDMO sector is expected to clock ~6% CAGR till 2026 and cross the USD4b mark in size. The Enzymes industry is expected to grow at 6.7% CAGR over the*

next five years to reach ~USD15b while the probiotics space provides a huge opportunity with the industry expected to grow over 9% to reach ~USD70b by 2023.

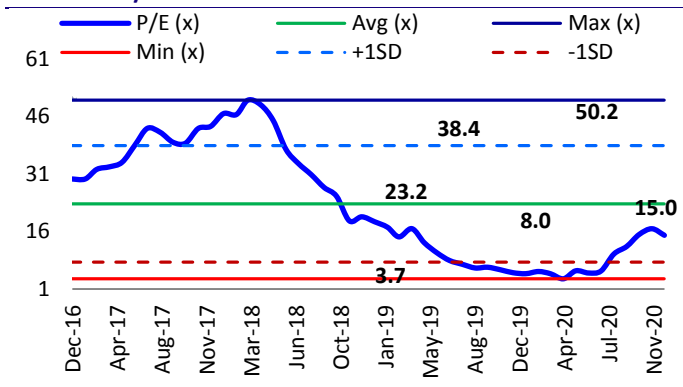
- Fermentation is the process of breaking down complex substances into simpler molecules with the help of microorganisms such as bacteria and yeast. Enzymes help in fastening this process by acting as catalysts (bio-catalysis). Through the fermentation process, microorganisms are grown in large quantities to produce many types of useful products.
- Fermentation involves four major steps:
 - A) **Strain selection and optimization** – Selection of the bacteria strain, virus, or fungus based on the product to be developed. This strain is then further optimized/processed by mutation and selection process.
 - B) **Medium and process development** – Identification and development of the medium of the cell cultures to be developed in. Different strains and products to be developed would require different mediums.
 - C) **Fermentation and scale-up** – Fermentation is carried out using one of the three main methods: batch fermentation, fed-batch fermentation and continuous fermentation. After identifying the method of fermentation, it is scaled up to increase batch sizes to commercial quantities.
 - D) **Downstream processing:** After completion of fermentation, recovery, purification, and characterization of the desired quality, the product is carried out through downstream processing.
- Microbial fermentation is used in the production of Enzymes, Amino acids, nutraceuticals, pharmaceuticals, APIs, vitamins, vaccines and cell cultures to be used in Biotech products. A growing use of fermentation is in the food industry.
- With artificial and lab-based meat products expected to revolutionize the food industry in the future, this segment is seen to be in a nascent stage of multi-year, multi-fold growth journey.

Exhibit 2: Growth expectations for the Enzymes Industry

	Estimated growth CAGR from 2019	Time period	Size at the end of the time period (USD b)
Global Enzymes market	6.7%	2025	14.7
Food Enzymes market	6.9%	2023	3.23
Industrial Enzymes market	6.5%	2026	8.7
Specialty Enzymes market	6.9%	2025	6.6
Probiotics market	7.0%	2023	69.3

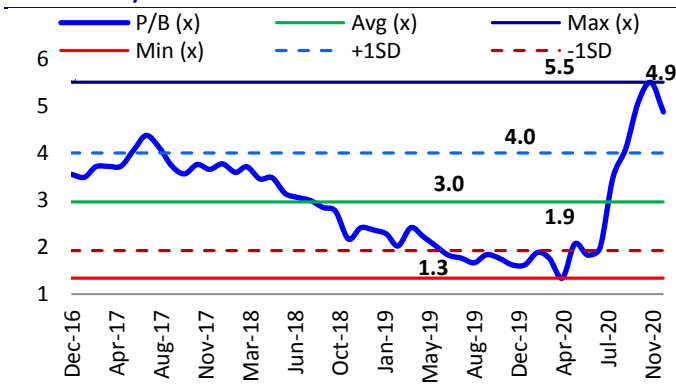
Source: MOFSL, Industry

Exhibit 3: P/E chart



Source: MOFSL, Company, Bloomberg

Exhibit 4: P/B chart



Source: MOFSL, Company, Bloomberg

Financials and Valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Total Income from Operations	11,597	13,266	17,776	19,046	20,690	22,919	28,317	45,716	55,976	66,038
Change (%)	61.4	14.4	34.0	7.1	8.6	10.8	23.6	61.4	22.4	18.0
Total Expenditure	9,509	11,264	14,154	14,970	16,557	19,155	22,672	31,133	38,399	45,633
% of Sales	82.0	84.9	79.6	78.6	80.0	83.6	80.1	68.1	68.6	69.1
EBITDA	2,089	2,002	3,622	4,076	4,133	3,764	5,645	14,583	17,576	20,406
Margin (%)	18.0	15.1	20.4	21.4	20.0	16.4	19.9	31.9	31.4	30.9
Depreciation	329	615	864	1,060	1,255	1,642	1,873	2,103	2,690	3,191
EBIT	1,760	1,387	2,758	3,016	2,879	2,122	3,773	12,480	14,887	17,215
Int. and Finance Charges	639	1,062	1,111	999	796	882	896	608	783	655
Other Income	88	341	44	334	292	162	59	183	224	264
PBT bef. EO Exp.	1,209	666	1,690	2,352	2,374	1,402	2,936	12,055	14,327	16,824
EO Items	0	0	0	0	0	-204	0	0	0	0
PBT after EO Exp.	1,209	666	1,690	2,352	2,374	1,198	2,936	12,055	14,327	16,824
Total Tax	236	-15	349	439	698	260	383	2,652	3,224	3,701
Tax Rate (%)	19.6	-2.3	20.6	18.7	29.4	21.7	13.1	22.0	22.5	22.0
Minority Interest	0	-2	4	11	0	0	0	0	0	0
Reported PAT	972	683	1,337	1,903	1,676	938	2,553	9,403	11,103	13,123
Adjusted PAT	972	683	1,337	1,903	1,676	1,097	2,553	9,403	11,103	13,123
Change (%)	10.2	-29.7	95.7	42.3	-11.9	-34.5	132.6	268.4	18.1	18.2
Margin (%)	8.4	5.2	7.5	10.0	8.1	4.8	9.0	20.6	19.8	19.9

Consolidated - Balance Sheet

(INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	154	155	158	1,058	1,060	1,064	1,069	1,069	1,069	1,069
Preference Capital	625	666	666	0	0	0	0	0	0	0
Total Reserves	2,806	6,419	7,744	12,247	13,766	14,520	16,629	24,616	34,047	45,193
Net Worth	3,584	7,241	8,568	13,304	14,826	15,584	17,698	25,685	35,116	46,262
Total Loans	5,428	8,211	10,277	8,417	9,649	10,030	10,123	10,143	9,943	6,443
Deferred Tax Liabilities	118	113	-549	-699	-529	-534	-739	-739	-739	-739
Capital Employed	9,131	15,565	18,296	21,023	23,946	25,081	27,081	35,088	44,319	51,966
Gross Block	6,230	9,865	11,063	14,088	17,851	20,976	23,821	26,859	32,916	39,598
Less: Accum. Deprn.	1,240	1,855	853	1,886	3,141	4,783	6,655	8,758	11,448	14,639
Net Fixed Assets	4,989	8,010	10,210	12,202	14,711	16,193	17,166	18,100	21,468	24,959
Goodwill on Consolidation	3	0	0	97	97	97	97	97	97	97
Capital WIP	1,161	1,097	696	1,433	1,632	1,096	672	2,634	4,477	3,996
Total Investments	0	74	70	34	34	34	34	34	34	34
Curr. Assets, Loans & Adv.	6,578	9,757	10,710	12,069	13,165	15,357	18,589	28,037	34,907	42,251
Inventory	3,281	4,755	4,871	5,090	5,848	6,819	9,052	12,686	15,963	19,345
Account Receivables	1,949	2,851	4,449	5,676	5,706	7,099	7,914	12,276	15,182	18,455
Cash and Bank Balance	232	589	288	41	31	30	17	484	589	708
Loans and Advances	1,117	1,562	1,103	1,262	1,580	1,408	1,605	2,591	3,172	3,743
Curr. Liability & Prov.	3,601	3,373	3,390	4,812	5,692	7,697	9,477	13,815	16,664	19,372
Account Payables	2,275	2,308	2,476	2,631	3,123	4,883	6,156	8,453	10,100	11,627
Other Current Liabilities	1,218	922	770	1,988	2,316	2,449	2,753	4,445	5,442	6,420
Provisions	109	143	144	193	253	365	568	917	1,123	1,324
Net Current Assets	2,977	6,383	7,320	7,257	7,473	7,660	9,112	14,222	18,243	22,879
Appl. of Funds	9,131	15,565	18,296	21,023	23,946	25,081	27,081	35,088	44,319	51,966

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Basic (INR)										
EPS	1.8	1.3	2.5	3.5	3.1	2.1	4.8	17.6	20.8	24.5
Cash EPS	2.4	2.4	4.1	5.5	5.5	5.1	8.3	21.5	25.8	30.5
BV/Share	6.7	13.5	16.0	24.9	27.7	29.2	33.1	48.0	65.7	86.5
DPS	0.0	0.0	0.1	0.3	0.0	0.3	0.6	2.2	2.6	3.1
Payout (%)	0.0	0.0	4.4	10.0	0.0	20.4	15.1	15.1	15.1	15.1
Valuation (x)										
P/E	174.3	247.9	128.8	90.1	101.1	154.4	66.4	18.0	15.3	12.9
Cash P/E	130.3	130.5	77.7	57.6	57.8	61.9	38.3	14.7	12.3	10.4
P/BV	47.3	23.4	19.8	12.7	11.4	10.9	9.6	6.6	4.8	3.7
EV/Sales	15.1	13.3	10.1	9.3	8.7	7.8	6.3	3.9	3.2	2.7
EV/EBITDA	83.6	88.5	49.5	43.6	43.3	47.7	31.8	12.3	10.2	8.6
Dividend Yield (%)	0.0	0.0	0.0	0.1	0.0	0.1	0.2	0.7	0.8	1.0
FCF per share	-3.5	-8.4	-2.7	1.0	-1.0	0.7	2.0	4.3	4.7	11.2
Return Ratios (%)										
RoE	31.5	12.6	16.9	17.4	11.9	7.2	15.3	43.3	36.5	32.3
RoCE	20.5	14.4	13.0	13.4	9.7	7.1	12.5	31.0	29.0	27.9
RoIC	25.4	14.0	14.6	13.5	9.7	7.2	13.0	33.4	32.4	31.1
Working Capital Ratios										
Inventory (Days)	103	131	100	98	103	109	117	101	104	107
Debtor (Days)	61	78	91	109	101	113	102	98	99	102
Creditor (Days)	72	64	51	50	55	78	79	67	66	64
Leverage Ratio (x)										
Current Ratio	1.8	2.9	3.2	2.5	2.3	2.0	2.0	2.0	2.1	2.2
Interest Cover Ratio	2.8	1.3	2.5	3.0	3.6	2.4	4.2	20.5	19.0	26.3
Net Debt/Equity	1.4	1.0	1.2	0.6	0.6	0.6	0.6	0.4	0.3	0.1

Consolidated - Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
OP/(Loss) before Tax	1,209	666	1,690	2,352	2,374	1,198	2,936	12,055	14,327	16,824
Depreciation	329	615	864	1,060	1,255	1,642	1,873	2,103	2,690	3,191
Interest & Finance Charges	515	862	1,038	931	505	720	837	425	559	391
Direct Taxes Paid	-234	-168	-333	-501	-698	-260	-383	-2,652	-3,224	-3,701
(Inc)/Dec in WC	-593	-2,507	-1,544	-525	-226	-187	-1,465	-4,644	-3,915	-4,517
CF from Operations	1,225	-531	1,716	3,317	3,209	3,113	3,797	7,287	10,437	12,188
Others	-13	-116	103	3	216	-136	-323	0	0	0
CF from Operating incl EO	1,212	-647	1,820	3,320	3,425	2,977	3,474	7,287	10,437	12,188
(Inc)/Dec in FA	-3,058	-3,821	-3,262	-2,774	-3,962	-2,589	-2,421	-5,000	-7,900	-6,201
Free Cash Flow	-1,846	-4,469	-1,443	546	-537	387	1,053	2,287	2,537	5,987
(Pur)/Sale of Investments	-60	-148	140	-113	0	0	0	0	0	0
Others	-1	0	0	0	120	60	210	183	224	264
CF from Investments	-3,120	-3,970	-3,122	-2,887	-3,842	-2,529	-2,211	-4,817	-7,676	-5,937
Issue of Shares	1	2,944	3	2,860	3	4	5	0	0	0
Inc/(Dec) in Debt	2,503	2,745	2,063	-2,387	1,278	429	139	20	-200	-3,500
Interest Paid	-474	-828	-1,033	-950	-796	-882	-896	-608	-783	-655
Dividend Paid	0	0	0	-59	0	-191	-384	-1,416	-1,672	-1,976
Others	0	0	0	0	-62	193	-140	0	0	0
CF from Fin. Activity	2,030	4,861	1,033	-536	422	-448	-1,277	-2,004	-2,656	-6,132
Inc/Dec of Cash	123	244	-269	-103	6	0	-14	466	106	119
Opening Balance	27	150	394	127	23	29	28	15	482	587
Closing balance	150	394	127	23	29	28	15	482	587	706
Bank balance	82	195	161	18	2	2	2	2	2	2
Total Cash and Cash equivalent	232	589	288	41	31	30	17	484	589	708

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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