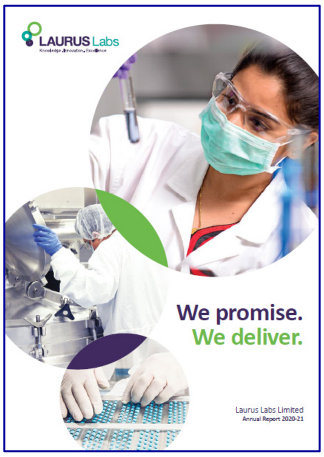
6 July 2021

Annual Report Update | Sector: Healthcare

Laurus Labs

BSE SENSEX	S&P CNX
52,861	15,818

Motilal Oswal values your support in the Asiamoney Brokers Poll 2021 for India Research, Sales, Corporate Access and Trading team. We request your ballot.



Stock Info

Bloomberg	LAURUS IN
Equity Shares (m)	265
M.Cap.(INRb)/(USDb)	362.2 / 4.9
52-Week Range (INR)	698 / 106
1, 6, 12 Rel. Per (%)	22/80/472
12M Avg Val (INR M)	1818
Free float (%)	72.6

Financials Snapshot (INR b)

Y/E MARCH	FY21	FY22E	FY23E
Sales	48.1	62.3	76.1
EBITDA	15.5	20.3	25.1
Adj. PAT	9.8	13.2	16.4
EBIT Margin (%)	28.0	28.5	28.9
Cons. Adj. EPS (INR)	18.3	24.5	30.6
EPS Gr. (%)	285.4	33.8	24.9
BV/Sh. (INR)	48.7	69.6	95.7
Ratios			
Net D:E	0.5	0.3	0.2
RoE (%)	45.0	41.7	37.2
RoCE (%)	30.6	30.8	30.6
Payout (%)	15.1	15.1	15.1
Valuations			
P/E (x)	36.4	27.2	21.8
EV/EBITDA (x)	23.9	18.2	14.6
Div. Yield (%)	0.3	0.5	0.6
FCF Yield (%)	0.1	0.9	1.9
EV/Sales (x)	7.7	5.9	4.8

CMP: INR675 TP: INR800 (+19%) Buy

Scaling up new levers to accelerate growth

Expanding the base business as well

- **Laurus Labs (LAURUS)'s Annual Report Analysis indicates a sharp improvement in ROE, led by a strong head-start in Finished dosage forms (FDF), improving operating profit, and a reduced interest rate.**
- **Since its journey from ARV API to a fully integrated pharmaceutical company over FY06–21, LAURUS is on the path to strengthening its capabilities/capacity in Contract Development and Manufacturing Operations (CDMO) – the Synthesis as well as Biotechnology space.**
- **Accordingly, LAURUS is investing INR15–17b in building R&D centers and greenfield/brownfield expansions for a meaningful commercial benefit from FY23.**
- **We raise our EPS by 3%/6% for FY22/FY23, factoring in improved business scope in the ARV – Synthesis segment. We raise the PE multiple to 24x (from 18x earlier) as LAURUS fortifies its skillsets across the clinical phase towards (a) commercial manufacturing in the CDMO segment (Synthesis), (b) gaining traction in the Biotech space, and (c) total integration as well as pipeline buildup in the ARV/Non-ARV space. Accordingly, we arrive at TP of INR800 on a 12M forward earnings basis and reiterate BUY on the stock.**

Multiple levers drive ROE expansion in FY21

The DuPont Analysis indicates that a superior product mix, better capacity utilization, and a lower interest/tax burden led to a sharp jump in the ROE trajectory in FY21. The doubling of FDF sales and strong recovery in ARV API sales (up 79% YoY) / Synthesis sales (up 67% YoY) led to operating margin expansion (1230bp YoY). Supported by a lower interest burden, this resulted in ROE rising to historically high levels of 45% in FY21.

Healthy revival in FCF…

Being in the growth phase of the business cycle, LAURUS has reported considerable capex (cumulative capex of INR18.5b over the past five years); FCF was in the negative territory up to FY19. With the commercialization benefit accrued on FDF capacity, LAURUS has been able to show positive FCF for FY20/FY21.

…but capex program to curb FCF

About 50%/25%/25% of INR15–17b would be spent towards the API / Custom Synthesis / Formulations segment over the next two years. The debottlenecking benefit would start accruing in FY22 and brownfield formulation expansion of 4b tablets per annum would be partly operational in FY22 / fully operational in FY23. LAURUS is refurbishing its newly acquired unit for the Synthesis segment, scheduled to be operational in FY22. It is also building a new R&D center, expected to be operational by FY23. LAURUS is also investing in a greenfield FDF capacity and expects to have Phase 1 operational by FY24. It has also acquired new land to construct an API facility, which would be operational by FY24. We expect these growth capital investments to keep FCF at lower levels.

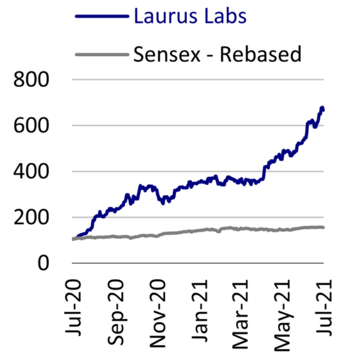
Tushar Manudhane – Research Analyst (Tushar.Manudhane@MotilalOswal.com)

Bharat Hegde, CFA – Research Analyst (Bharat.Hegde@motilaloswal.com);

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	27.5	28.8	32.0
DII	3.6	4.1	31.6
FII	20.7	19.9	11.3
Others	48.3	47.2	25.1

SStock Performance (1-year)



Valuation and view

We expect a 29% earnings CAGR over FY21–23, led by a 32%/42%/42% sales CAGR in the FDF / Synthesis / Other API segment.

LAURUS has built its Custom Synthesis business steadfastly over the past decade on the firm foundation of its chemistry skills. With the groundwork having already been laid out, new project additions are expected to increase at a faster rate than seen before. This is evident from the fact that while it took around a decade to reach 40 projects in Custom Synthesis up to FY20, it added 10 new projects in FY21, implying a 25% increase in active projects YoY. Furthermore, a dedicated R&D center and two greenfield manufacturing facilities could cater to the larger commercial-scale requirements of clients. This would enable multi-fold growth in revenues at better-than-company levels as well as in Formulations business margins.

The number of biologics products introduced in regulated markets at the industry level is growing at a faster rate than seen in the past. LAURUS aims to cater to increased demand in the Biologics CDMO segment through its integrated offering. It can leverage its ongoing relationships with innovators to build this segment at a much faster rate than seen in the Custom Synthesis segment through cross-selling. Being a high entry barrier segment, Biologics offers better margins and revenue potential than small molecule projects. The higher ticket sizes of projects in this segment would also ensure a faster ramp-up in this segment. We expect Laurus Bio to further augment its research support capabilities in Biologics to be able to provide end-to-end integrated services in the Biologics CDMO segment.

Considering enhanced growth prospects in CDMO (Synthetics/Biologics) and Non-ARV FDF/API, consistent compliance, and lower financial leverage, we revise the PE multiple to 24x (from 18x earlier). Accordingly, we revise our TP to INR800 on a 12M forward earnings basis. Reiterate BUY.

Transformational journey

Exhibit 1: Transformational journey

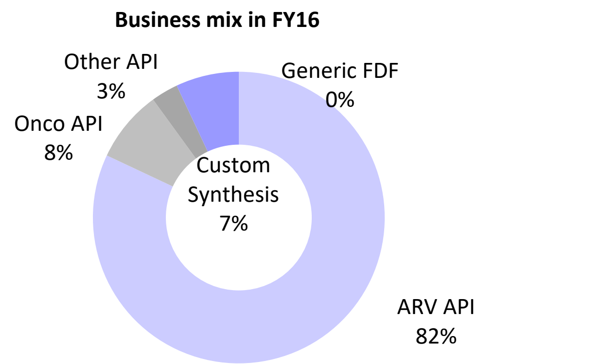
Capabilities	2006-11	2011-16	2016-21
Description of Company	ARV API Company	API Company	Pharmaceutical Company
Team strength	883	2,266	4,808
Manufacturing units	1	2	8
Reactor volume (KL)	220	1,870	4,638
Formulations OSD billion	-	2	5
DMFs	12	28	61
ANDAs - Total filed			27
- Para IV			2
- First to file			7
Patents - Filed	48	218	292
Granted	-	25	150
USFDA approved manufacturing sites	1	2	5

Source: MOFSL, Company

It acquired a 72.6% stake in Richcore Life Sciences for INR2.5b in FY21 in a bid to foray into the Biotech/Biologics CDMO space.

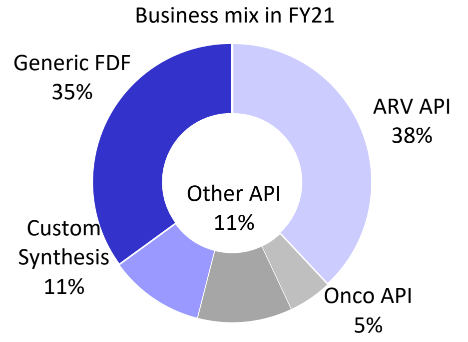
LAURUS has transformed in the last five years from being a predominantly API company to an integrated pharma company in FY21, offering ARV and non-ARV APIs, finished formulations, and custom synthesis services. Over the last five years, ARV API witnessed a 5% CAGR (over a high base), Onco API 11%, Other API 58%, and Custom Synthesis a healthy rate of 34%. LAURUS transitioned to supplying formulations in FY19, and FDF sales have since grown exponentially.
In FY21, ARV API / Onco API / Other API sales grew 66%/21%/70% on a YoY basis. Synthesis sales (on an adjusted basis) grew 67% YoY. FDF sales more than doubled to INR16.6b in FY21. We expect revenues to post a 26% CAGR over FY21–23.

Exhibit 4: Transformation from an API company in FY16…



Source: MOFSL, Company

Exhibit 5: …to an integrated pharma company in FY21



Source: MOFSL, Company

Superior product mix leads to gross margin expansion

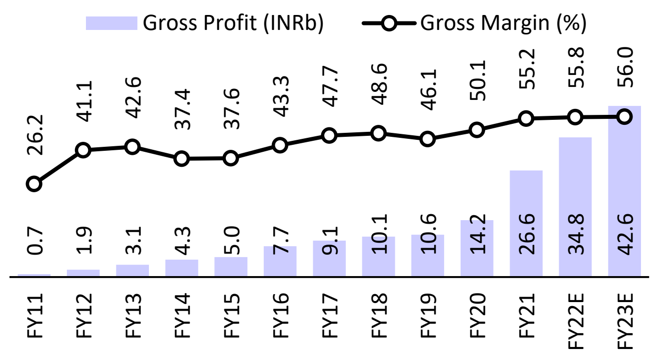
Formulations sales have picked up the pace in the last two years, which took their contribution to 35% of total revenues in FY21 from 2% in FY19. Forward integration to formulations, better realization, and support from higher sales in Synthesis contributed to an increase in gross margins.

Exhibit 6: 70% YoY growth in revenues

	FY11–16 CAGR (%)	FY16–20 CAGR (%)	FY21 (INR b)	FY21 (YoY %)
Revenue	45.1	11.8	48.1	70
Gross Profit	59.8	16.5	26.5	872
Gross Margin (%)			55.2	
EBITDA	49.5	11.7	15.5	174.7
EBITDA Margin (%)			32.2	
Adj. PAT	70.1	17.5	9.8	285.4
Adj. PAT Margin (%)			20.4	

Source: MOFSL, Company

Exhibit 7: 87% YoY growth in gross profit in FY21



Source: MOFSL, Company

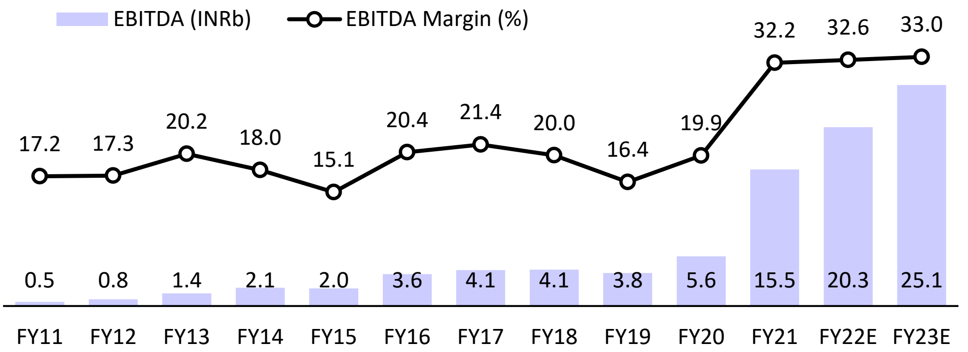
A shift to the TLD (Tenofovir, Lamivudine, and Dolutegravir) based combination and the addition of products related to second-line treatment have also contributed to better margins in ARV API and Formulations. Being backward integrated, LAURUS enjoys higher gross margins in the ARV segment. Led by a changing product mix and increased contribution from Synthesis and FDF, we expect an 80bp GM increase over FY21–23.

EBITDA margins expanded at a higher rate of 1,230bps v/s gross margins (+510bps YoY)

Operating leverage leads to higher EBITDA margin expansion

Over FY11–20, the EBITDA margin expanded 270bp to 19.9%. Notably, in FY21, the higher rate of EBITDA margin expansion was largely on account of higher operating leverage and a change in the product mix in ARV API and Formulations.

Exhibit 8: EBITDA margins expand 1,230bp YoY in FY21; to sustain at elevated levels



Source: MOFSL, Company

We expect elevated EBITDA levels to expand a further 80bp with a shift in the product mix toward the FDF and Custom Synthesis segments.

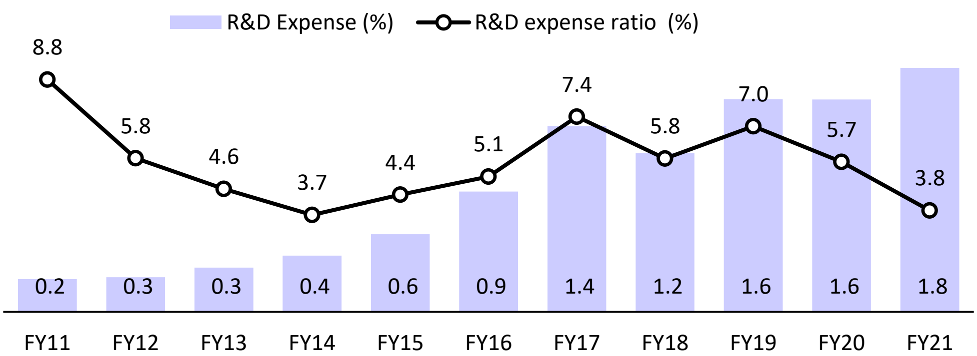
Stable R&D spend to build product pipeline

Pregabalin, which was launched in July 2019 through a partner, continues to enjoy double-digit market share

R&D expense grew 15% YoY in FY21, although it declined 190bps YoY as a percentage of total sales to 3%. 60+ products have been commercialized and 61 DMFs filed by the company to date. It has filed 27 ANDAs in the US to date. Additionally, it filed for 12 products in Canada, 9 in Europe, 8 with WHO, 2 in South Africa, 2 in India, and 14 products in the Rest of World (RoW) markets in FY21.

LAURUS filed one ANDA in FY21. Filings in the US slowed in FY21 due to a higher focus on commercial batches. It completed three validations in FY21 and filed two dossiers in Canada, three in the EU, and three in the ROW markets in FY21. LAURUS received three final approvals (FA) and three tentative approvals (TA) in FY21, taking the cumulative FA to nine and TA to eight. LAURUS intends to file 8–10 ANDAs annually to build an additional lever for growth.

Exhibit 9: R&D spend gradually increasing on absolute basis

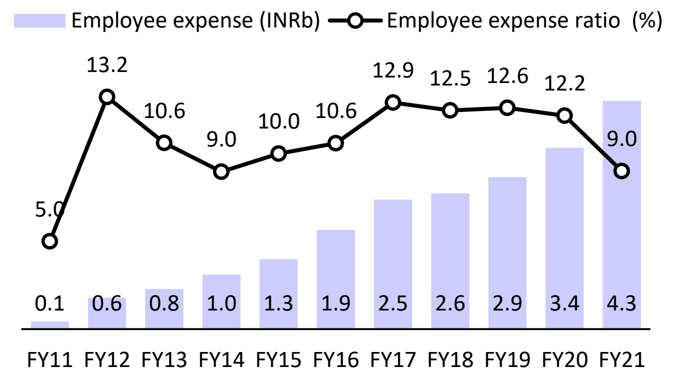


Source: MOFSL, Company

Revenue growth rate much higher v/s employee costs and other expenses

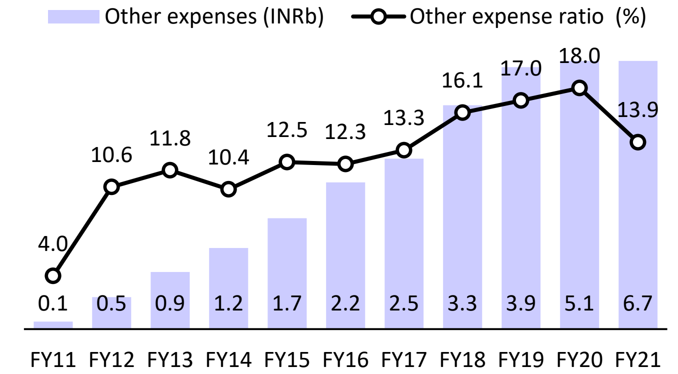
LAURUS did not have any new greenfield facility coming on stream in FY21. This led to slower growth in operating expense at 32% YoY over FY21 v/s revenue growth (70% YoY in FY21), leading to better operating leverage. As a result, operating expenses as a percentage of sales declined 410bp YoY to 13.9% in FY21. The largest items under other expenses, namely power and fuel and factory maintenance expenses, accounted for 40% of the total expenses and grew 20% YoY in FY21. Power and fuel expenses grew 15% YoY to INR1.6b and factory maintenance expenses 26% YoY to INR1.1b in FY21.

Exhibit 10: As % of sales, employee expenses decline 320bp…



Source: MOFSL, Company

Exhibit 11: …and other expenses decline 410bp YoY



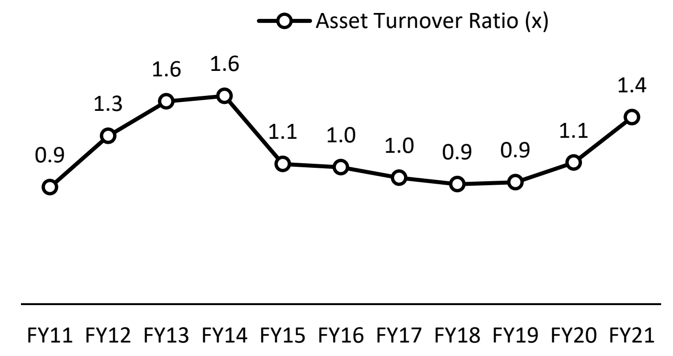
Source: MOFSL, Company

Employee cost as a percentage of sales was 9% in FY21, down from 12.2% in FY20, led by an increase in productivity. Interestingly, 613 net employee additions were reported in FY21. Median employee remunerations were in-line (–1% YoY) in FY21. Excluding managerial personnel, median remunerations increased 11.4% YoY in FY21.

Strong improvement in asset turnover

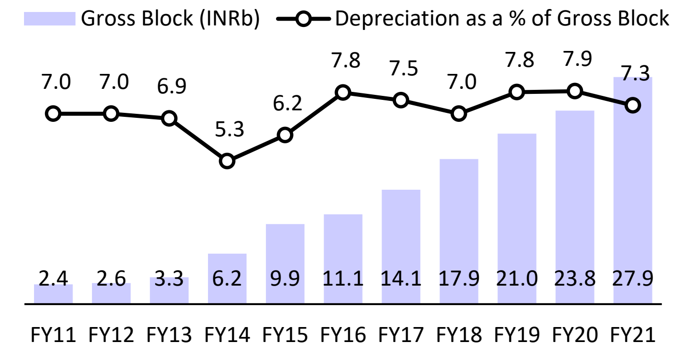
LAURUS built a gross block of INR28b in FY21 from INR2.4b in FY11. A slowing Hep-C API business and the buildup of formulation manufacturing assets slowed the asset turnover to 0.9x by FY19. With a pickup in Formulations/Other API revenues, the asset turnover revived to 1.4x in FY21.

Exhibit 12: Asset turnover on improving trend



Source: MOFSL, Company

Exhibit 13: Depreciation rate stable YoY in FY21

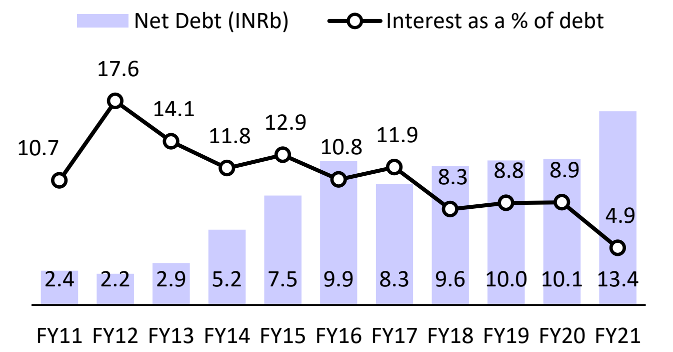


Source: MOFSL, Company

Reduced financial leverage moderately impacts ROE

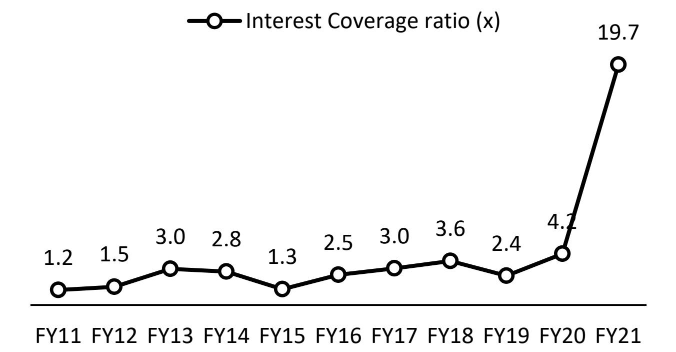
While net debt increased to INR13b in FY21 (from INR2b in FY11), financial leverage declined on account of increased earnings contribution to networth.

Exhibit 14: Net debt up due to ongoing capex



Source: MOFSL, Company

Exhibit 15: Interest coverage ratio increases to ~20



Source: MOFSL, Company

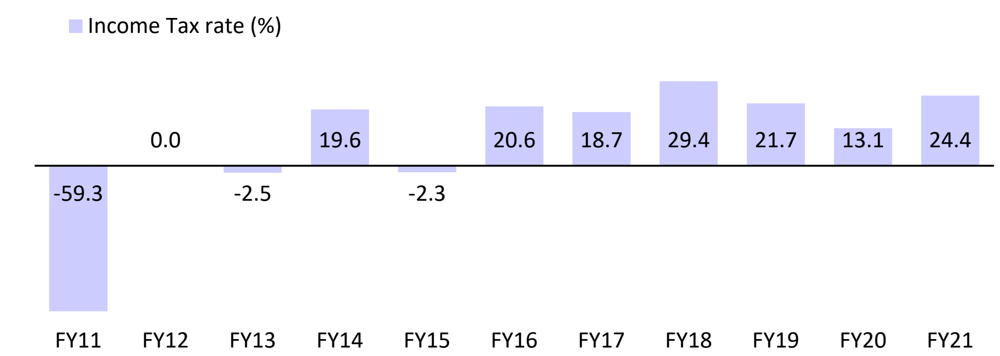
The increased share of low-cost debt and improving business performance have helped reduce the interest burden to a large extent. Even the interest coverage ratio sharply improved to 19.7x by end-FY21.

Tax burden decreases YoY in FY21, impacts ROCE to some extent

Income tax rate was lower in FY21 YoY due to lower tax incentives

The benefits of having a manufacturing site in a special economic zone (SEZ), higher R&D spend, and a facility set up in tax-benefit zone helped LAURUS lower the tax rate up to FY20. Particularly for FY21, ~INR3.6b of the company's income from SEZs was non-taxable under Clause 10 AA of the Income Tax Act. However, reduced income tax benefit related to a) R&D spend and b) backward area benefit on manufacturing facilities led to higher tax rate for FY21. No tax savings were reported on account of Deferred Tax Liability Originating; the reversal during the tax holiday period also contributed to an increase in the tax rate.

Exhibit 16: Income tax higher in FY21 on lower benefits from tax exemptions



Source: MOFSL, Company

Robust base business; building new levers for growth

- **The Legacy ARV business performed strongly across API and Formulations, with further room to increase market share in the Tender business from LMIC countries.**
- **LAURUS incorporated a wholly owned subsidiary to increase focus on the Synthesis business and have a dedicated R&D and manufacturing facility for the business.**
- **LAURUS' foray into Biologics has begun taking shape with the Richcore acquisition. It intends to be an integrated biologics CDMO player over the next 4–5 years.**
- **The Non-ARV Formulations/API business would expand considerably over the next 3–4 years. DMF filings are already being ramped up and ANDA filings would increase to 9–10 per year from FY22. The company is already undertaking greenfield expansion for the Non-ARV Formulations/API segment to cater to the regulated markets.**

Stunning performance in ARV-led API/Formulations segment

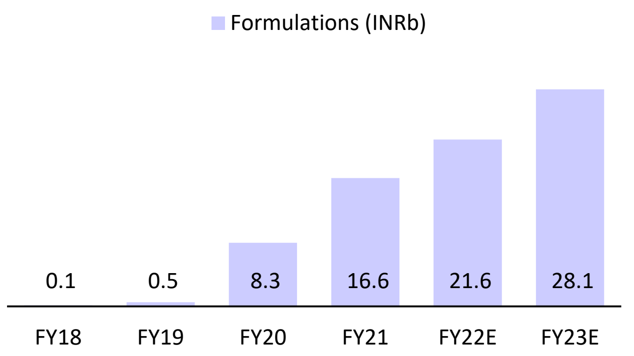
ARV-led growth in the Formulations segment in FY21

The contribution of FDF increased to 35% of sales in FY21, from almost nil in FY17. Emerging as the fastest growing unit, it clocked INR16.6b worth of sales in FY21, up from INR20m in FY17. The shift to the TLD-based combination for first-line treatment has led to a significant scale-up in the Formulations division. Additionally, it launched TLE400 (Tenofovir, Lamivudine, and Efavirenz) in the LMIC market. Interestingly, LAURUS has just 11–12% market share in the ARV Tender business, with much scope for growth based on its backward integration strength. Incrementally, the Tender business in South Africa provides an interesting opportunity, which LAURUS has yet to explore.

Debottlenecking to increase formulations capacity by 20%; brownfield facility to further increase capacity by 4b units

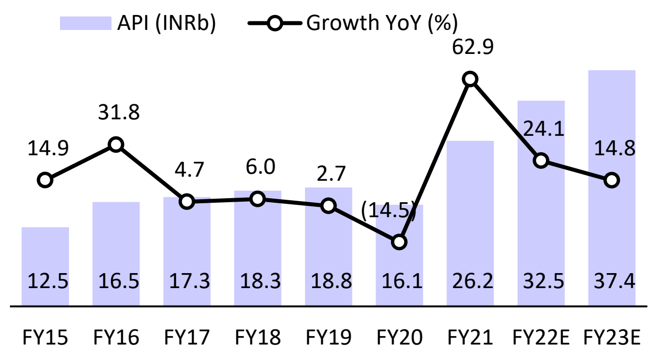
While demand for LAURUS in the ARV Formulations business has remained strong, capacity constraints have hindered any further ramp-up. LAURUS is currently operating at an optimum capacity of 5b units per year. In light of increasing demand and a strong order book in the Tender business, LAURUS is doubling its FDF production capacity to 10b units annually through debottlenecking and the commissioning of a brownfield capacity at Visakhapatnam. The new 4b unit FDF facility would be operational by end-FY22.

Exhibit 17: FDF the fastest growing biz



Source: MOFSL, Company

Exhibit 18: API sales up 63% YoY in FY21



Source: MOFSL, Company

Within API, ARV API contributes ~70% to sales. API sales plummeted 14% YoY in FY20 on account of the lower off-take of Efavirenz due to a change in the treatment preference for HIV-AIDS.

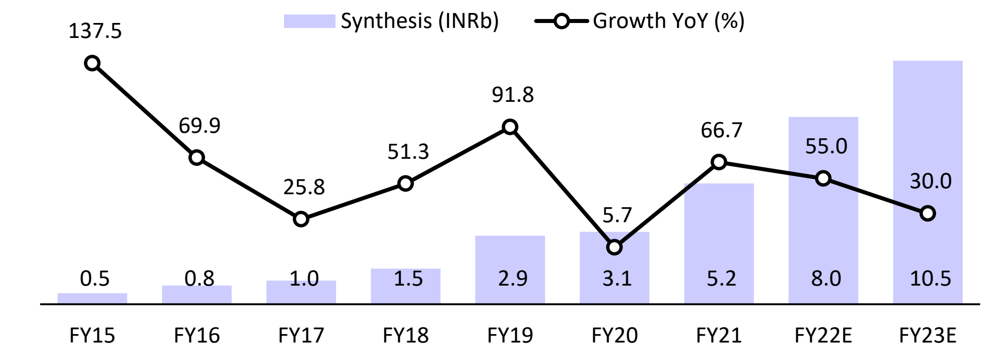
In addition to Efavirenz, TDF, and Emitracitabine, Laurus has added capacity for other ARV APIs, namely Lamivudine. This led to a significant increase in ARV API volumes for LAURUS in FY21, largely driving 63% YoY revenue growth in API. It supplies ARV APIs to 80% of global participants in the Tender business.

Custom Synthesis division being geared up for independent functioning

New greenfield formulations and R&D facilities underway to enable this division to operate independently

In the Custom Synthesis division, LAURUS provides analytical and research services to global innovator pharma companies around the globe. It supports clients' products from the pre-clinical and clinical stages from its kilo lab facility at Genome valley – which has 43 reactors with 4.3kl reactor capacity. A larger facility with 50 reactors and 153.73kl has the capacity for ingredients and contract manufacturing and could cater to clients' commercial-stage requirements. It also has a dedicated capacity of 137kl for steroids and hormonal products at Unit 5. This facility also caters to Aspen. In addition, LAURUS supplies nutraceuticals, dietary supplements, and cosmeceutical products under the Custom Synthesis segment. It had 50 active projects in this division at end-FY21.
Revenues in the Custom Synthesis division grew 67% YoY to INR5.2b in FY21, driven by new project additions.

Exhibit 19: Synthesis business posts comeback with 67% YoY growth in FY21



Source: MOFSL, Company

Ability to supply at pre-clinical and commercial-scale requirements and capabilities to supply hormones and steroid products differentiates LAURUS

In addition to its well-established chemistry skills, LAURUS' capability to supply high-potency APIs and steroids differentiates it in this segment. It can also support commercial-scale requirements.

The Custom Synthesis segment is seeing increased traction, and LAURUS is operating at peak capacity currently. In light of increasing demand, it is setting up a greenfield facility with two units at an investment of INR3–3.5b. The facility would turn partly operational from 1HFY22. It is also setting up a dedicated R&D facility for the Custom Synthesis division, which would turn operational in FY22/FY23. It has also acquired land for a formulations facility in Hyderabad for its Custom Synthesis division.

The dedicated R&D and manufacturing facilities for Custom Synthesis sets LAURUS apart from its competitors. Over the medium term, LAURUS intends to enable independent operations in this division.

LAURUS Bio – next lever for growth taking shape

LAURUS intends to be an integrated biologics CDMO over the next 4–5 years; it is planning a further capacity expansion

LAURUS acquired a 72.55% stake in Richcore Life Sciences for INR2.5b in FY21 in a bid to foray into the Biotech/Biologics CDMO space. LAURUS Bio (previously Richcore) had an initial fermentation capacity of 10,750 liters; it has invested in another facility that would have a capacity of 180,000 liters, which would turn operational in FY22. It currently has a portfolio of seven protein products and one growth factor.

With the acquisition, there are certain short-term synergies that LAURUS would take advantage of in the area of biocatalysis and the development of a fermentation process for intermediates for steroids and hormones. Biocatalysis helps in making processes clean and green, which LAURUS could capitalize on using Richcore's technology. With this fermentation facility, LAURUS can become self-reliant for its steroids and hormone products.

It is planning new capex to take the total fermentation capacity to ~1 million liters. LAURUS could invest ~INR2b on this expansion. Over the next 3–4 years, it intends to provide a vertically integrated offering in the Biotech CDMO space, especially for biologics for pharma companies. LAURUS Bio is also expected to be an independent entity under LAURUS. The company does not have any immediate plans to produce its own biosimilars for commercial purposes.

Spreading footprint in Non-ARV segment

The Non-ARV Formulations/API business is among the key levers for growth for LAURUS' future growth trajectory. The company is focusing on the developed markets in this segment for both APIs as well as formulations. Apart from ARV products (70–75%), CVS, CNS, PPI, and Anti-Diabetic are other key therapeutic focus areas for driving future growth.

Exhibit 20: Key ANDA approvals / tentative approvals over the last three years

Approval Date	Active Ingredients	Submission Status	Therapy
Apr-21	Atazanavir Sulfate	Approval	ARV
Dec-20	Dolutegravir;Emtricitabine;Tenofovir Alafenamide	Tentative Approval	ARV
Aug-20	Pirfenidone	Tentative Approval	Pulmonary Fibrosis
May-20	Efavirenz; Lamivudine; Tenofovir Disoproxil Fumarate	Approval	ARV
May-20	Efavirenz; Lamivudine; Tenofovir Disoproxil Fumarate	Approval	ARV
Apr-20	Macitentan	Tentative Approval	Cardiac/Lung
Jan-20	Dolutegravir	Tentative Approval	ARV
Jul-19	Emtricitabine; Tenofovir Disoproxil Fumarate	Approval	ARV
May-19	Dolutegravir Sodium	Tentative Approval	ARV
Mar-19	Abacavir;Dolutegravir;Lamivudine	Tentative Approval	ARV
Feb-19	Dolutegravir;Lamivudine;Tenofovir Disoproxil Fumarate	Tentative Approval	ARV
Jan-19	Hydroxychloroquine Sulfate	Approval	Anti-malaria
Aug-18	Metformin Hydrochloride	Approval	Anti-diabetes

Source: MOFSL, USFDA

Non-ARV business poised to grow significantly from FY23 through product offerings in regulated markets supported by deep backward integration

LAURUS has received 17 final/tentative approvals from the USFDA to date. It currently has ANDA filings mostly in the ARV segment owing to its legacy strength. It intends to augment this with 9–10 new filings per for the next couple of years. LAURUS intends to be selective in choosing the products it intends to commercialize, with the focus on deep backward integration. Given its proven execution in backward integrating formulations, we believe LAURUS would be a major disruptor in this space over the next 2–3 years.

To support its growth plans for the developed markets, the company has already acquired land for a greenfield formulations business that would cater to the developed markets. Phase 1 of this facility would be operational from FY24.

LAURUS has filed 28 DMFs with the USFDA since 2016. DMF filings are spread across the ARV, Anti-Diabetic, Onco, Cardiac, and CNS segments. Being backward integrated in APIs as well, we believe LAURUS could capture sizeable market share from incumbents in the products it supplies. Some of the DMFs filed could also hint at the potential products for which the company may file ANDAs in the near future.

Exhibit 21: 28 DMF filings in US since 2016

DMF filing date	Active Ingredient	Innovator brand name	Category	Number of filers
Mar-21	Sitagliptin Phosphate Monohydrate USP	Januvia	Anti-diabetic	15
Jan-20	Oseltamivir Phosphate USP	Tamiflu	Anti Viral	13
Jan-20	Erlotinib Hydrochloride	Tarceva	Oncology	22
Aug-19	Ritonavir USP	Norvir	ARV	14
Jun-19	Lopinavir USP	Kaletra	ARV	11
Jun-19	Sacubitril Valsartan 3Na Complex	Entresto	Cardiac	1
Apr-19	Dolutegravir Sodium	Tivicay	ARV	14
Feb-19	Tenofovir Alafenamide Fumarate	Vemlidy	Hep C	12
Nov-18	Imatinib Mesylate	Gleevec	Oncology	25
Aug-18	Abacavir Sulfate USP	Ziagen	ARV	8
Jul-18	Atorvastatin Calcium Trihydrate USP	Lipitor	Cardiac	9
Jun-18	Empagliflozin	Jardiance	Anti-diabetic	22
May-18	Pirfenidone	Esbriet	Pulmonary Fibrosis/Lung	24
Mar-18	Lamivudine USP	Epivir	ARV	17
Nov-17	Sofosbuvir	Sovaldi	Hep C	7
Oct-17	Darunavir	Prezista	ARV	11
Oct-17	Tenofovir Disoproxil Fumarate	Truvada	ARV	21
Sep-17	Macitentan	Opsumit	Cardiac	10
Sep-17	Hydroxychloroquine Sulfate USP	Plaquenil	Anti malarial	16
Jul-17	Lamivudine USP	Epivir	ARV	17
Jul-17	Dolutegravir Sodium	Tivicay	ARV	14
May-17	Pregabalin	Lyrica	CNS	34
Jan-17	Canagliflozin	Invokana	Anti-diabetic	15
Dec-16	Enzalutamide	Xtandi	Oncology	10
Sep-16	Atazanavir Sulfate	Reyataz	ARV	18
Sep-16	Dolutegravir Sodium	Tivicay	ARV	14
May-16	Metformin Hydrochloride USP	Glucophage	Anti-diabetic	36
Mar-16	Carfilzomib	Kyprolis	Oncology	11

Source: MOFSL, USFDA

Capex investments keep FCF at lower levels

- **LAURUS has been generating FCF since FY19, albeit at a slower pace, owing to a strong capital investment program.**
- **LAURUS invested ~INR7b in capex in FY21, which impacted FCF generation significantly despite the ~3x increase in PAT.**
- **LAURUS intends to invest INR15–17b in capex across API, Formulations, and Custom Synthesis and is planning large capex for the newly incorporated LAURUS Bio – which is expected to continue to cap the FCF generation over the near-to-medium term.**

Higher capex impacts FCF generation

As LAURUS is in the growth phase, it requires considerable capex to meet future product demand. Since FY14, free cash flow to the firm had been in the negative territory, with the intensity increasing up to FY16. However, strong demand in FY20, with the shift towards Formulations, resulted in meaningful FCF generation. FCF was low in FY21 due to higher capex investments, necessitated by a strong order book. This kept FCF in FY21 at muted levels.

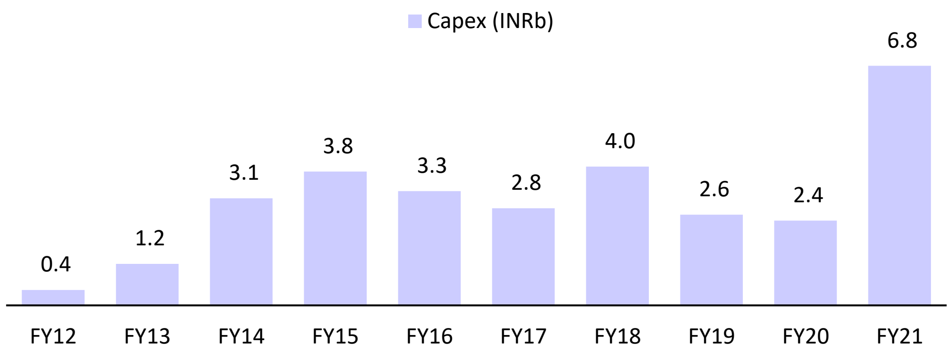
Exhibit 22: Muted FCF generation in FY21 on INR7b capex investments

FCF analysis	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
EBIT	1,760	1,387	2,758	3,016	2,879	2,122	3,773	13,456	17,786	22,006
Tax	234	168	333	501	698	260	383	2,285	3,822	4,912
Non-Cash expenses	329	615	864	1,060	1,255	1,642	1,873	2,051	2,533	3,099
Change in WC	1,149	2,342	1,546	1,292	295	605	1,775	6,218	6,292	6,561
Capex	3,058	3,821	3,262	2,774	3,962	2,589	2,421	6,839	7,500	7,500
FCFF	**-2,353**	**-4,330**	**-1,519**	**-491**	**-822**	**310**	**1,067**	**165**	**2,705**	**6,132**

Source: MOFSL, Company

Although capex is expected to increase in FY22/FY23, faster growth in revenues and margin expansion would more than offset the capex requirement, leading to higher FCF generation over the next two years.

Exhibit 23: LAURUS posts cumulative capex of INR18.6b in past five years



Source: MOFSL, Company

Capex to enhance capacity across key segments

LAURUS has incurred cumulative capex of INR18.5b over the past five years. Currently, it has three ongoing brownfield-greenfield expansion programs in Vizag, of which two are for Formulations and one for API. It also has two greenfield expansion programs, one each for the Custom Synthesis and Formulations divisions. In Hyderabad, LAURUS has acquired land for a new greenfield FDF facility. It has also acquired land for a new R&D center for the Custom Synthesis division.

LAURUS has guided for capex upwards of INR15–17b for FY21. In addition, it is working on a capex plan for the LAURUS Bio division, which is yet to be announced.

Exhibit 24: Ongoing capex program

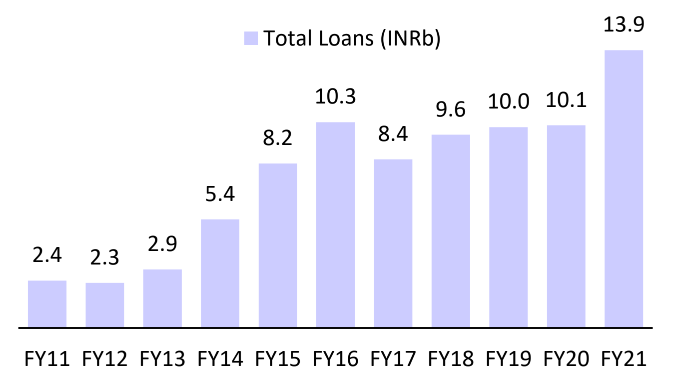
	Nature	Division	Details	Operational timeline
Visakhapatnam	Brownfield	❖ Formulation	❖ Part of Unit 2 site. The new building for FDF is expected to have a capacity of 4b units	FY22–23
	Brownfield	❖ Formulation	❖ Debottlenecking program to free up 20% capacity	FY21–22
	Brownfield	❖ API	❖ Expansion at Units 4, 3 and 6	Ongoing
	Greenfield (Two units)	❖ Custom synthesis	❖ Part of newly acquired unit in Visakhapatnam; undergoing refurbishment	FY21–22
	Greenfield (Two units)	❖ API	❖ New land acquired and to be used to construct a new API facility	FY23–24
Hyderabad	Greenfield	❖ Formulation	❖ New land acquired and to be used to construct a new FDF facility	Phase 1 – FY23–24
	Greenfield	❖ R&D center for Synthesis	❖ New land acquired to construct a new R&D center	FY22–23

Source: MOFSL, Company

Debt rises to meet capex and working capital requirement

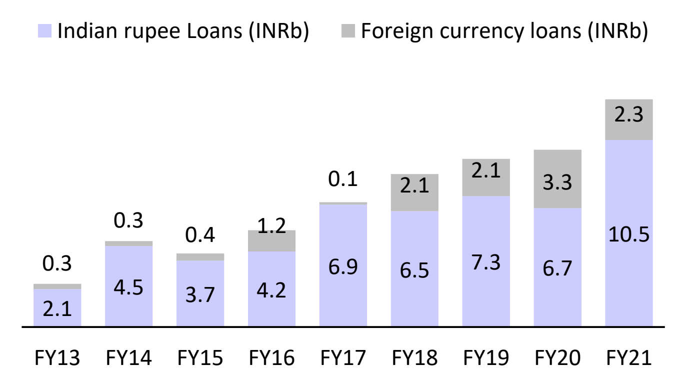
While debt remained stable at INR10b over FY18–20, it increased to INR14b in FY21 to fund capital expenditure as well as rising working capital needs.

Exhibit 25: Loan funds increase due to new capex programs



Source: MOFSL, Company

Exhibit 26: Foreign currency loans decline in FY21, while INR loans increase



Source: MOFSL, Company

In line with the increase in total debt, INR-denominated loans increased to INR10.5b in FY21. Foreign currency loans declined by INR1b YoY to INR2.3b during the year.

Exhibit 27: Lower EBITDA to cash flow conversion in FY21 on higher WC requirements

EBITDA to CFO	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
EBITDA	2,089	2,002	3,622	4,076	4,133	3,764	5,645	15,507	20,319	25,105
Other Income	88	341	44	334	292	162	59	237	249	304
EO Items	-	-	-	-	-	(204)	-	-	-	-
Direct Taxes Paid	(234)	(168)	(333)	(501)	(698)	(260)	(383)	(2,285)	(3,822)	(4,912)
(Inc)/Dec in WC	(1,109)	(2,274)	(1,543)	(1,400)	(295)	(605)	(1,775)	(6,244)	(6,292)	(6,561)
Others	(138)	(315)	30	(65)	(76)	(297)	(382)	(188)	(249)	(304)
CFO	1,212	(647)	1,820	3,319	3,425	2,977	3,474	7,330	11,177	14,466
CFO as a % of EBITDA	**58**	**(32)**	**50**	**81.4**	**82.9**	**79.1**	**61.5**	**47.3**	**55.0**	**57.6**

Source: MOFSL, Company

EBITDA grew to 2.8x YoY in FY21, while CFO rose at a slower rate to 2.2x (INR7b). Slower growth in CFO was attributable to higher WC on account of increased inventory requirements in the Formulations business. Notably, WC investments increased to 3.5x YoY in FY21.

The CFO-to-EBITDA ratio has improved since FY16 and remained stable at ~60% over the past three years. Due to the impact of higher working capital in FY21, the CFO-to-EBITDA ratio declined to 45%.
We expect EBITDA got grow at a 27% CAGR over FY21–23 to INR25b, which would aid an increase in the EBITDA-to-CFO conversion.

Exhibit 28: Inventory days up; debtor days down; payables days stable

Working Capital Ratios	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Inventory (Days)	79	103	131	100	98	103	109	117	119
Debtor (Days)	80	61	78	91	109	101	113	102	99
Creditor (Days)	67	72	64	51	50	55	78	79	89
Cash Conversion Cycle (Days)	92	93	146	141	156	149	144	139	129

Source: MOFSL, Company

The cash conversion cycle improved YoY by 10 days in FY21. An increase of 2 days in inventory days was offset by a 3-day decline in debtor days and 10-day increase in creditor days. The reduction in debtor days was on account of direct supply to institutional agencies rather than formulators.

Other highlights

- **LAURUS raised dividends to INR2 per share in FY21 from INR0.5 per share in FY20.**
- **The remuneration packages of executive directors increased considerably on a YoY basis on the back of a remarkable performance in FY21.**

Improving business prospects lead to higher dividend outgo

LAURUS paid INR2 per share as dividend in FY21, up from 0.5 per share in FY20.

Exhibit 29: Dividend history

Particulars	FY17	FY18	FY19	FY20	FY21
DPS (INR)	0.3	0.3	0.3	0.5	2.0
Reported EPS (INR)	3.6	3.1	1.8	4.8	18.4
Market price on last day of FY (INR)	NA	NA	515	403	362
Dividend Yield (%)	NA	NA	0.3	0.6	0.6
Dividend Payout ratio (%)	8	10	17	10	11

Source: MOFSL, Company

EPS growth was in line with dividend growth in FY21. Dividend yield in FY21 was at ~0.6%, the same as that in FY20.

Contingent liabilities (ex-bills discounted) stable in FY21

Contingent liabilities increased 17% YoY to INR1.2b in FY21 from INR1b in FY20. Bills discounted without recourse increased to INR2.3b in FY21, up from INR542m in FY20.

Exhibit 30: Contingent liabilities up 17% YoY

Particulars	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Outstanding bank guarantees (excluding performance obligations)	47	56	50	111	193	138	445	520
Claims arising from disputes not acknowledged as debts - direct taxes	10	10	10	10	10	66	42	112
Claims arising from disputes not acknowledged as debts - indirect taxes	-	-	-	101	265	304	475	509
On account of provident fund liability						76	76	76

Source: MOFSL, Company

Remuneration packages of directors / key management personnel

Median remunerations were in-line (–1% YoY) in FY21. Moreover, the average increment for employees other than the managerial personnel was 11.35% in FY21. There were 4,492 permanent employees on the payroll as of 31st Mar’21.

Exhibit 31: Remuneration packages of directors / key management personnel - (INR m)

Name	Designation	FY21 Remuneration	Ratio to Median	% increase YoY
Dr. M. Venu Gopala Rao	Non-executive Chairman and Independent Director	2.7	6	10%
Dr. Satyanarayana Chava	Executive Director & CEO	178.6	431	124%
Mr. VV Ravi Kumar	Executive Director & CFO	44	106	96%
Mr. Chandrakanth Chereddi	Non-Executive Director	4.8	11	-69%
Venkata Lakshmana Rao C	Executive Director	25.9	61	153%
Dr. Ravindranath Kancherla	Independent Director	2.6	6	18%
Mrs. Aruna Bhinge	Independent Director	2.7	7	8%
Dr. Rajesh Koshy Chandy	Independent Director	37.1	9	13%

Source: MOFSL, Company

Inspection snapshot

Due to the ongoing COVID pandemic, LAURUS' facilities were not inspected by the USFDA in FY21. There are no pending USFDA sanctions on any of its facilities as of FY21. **In FY20, Units 1 and 3 of the API business underwent inspection and were cleared by the USFDA with the issuance** of EIRs in Nov'19, implying successful compliance. Thereafter, Units 2 and 4 also underwent USFDA inspections and were issued EIRs.

Exhibit 32: Manufacturing sites and USFDA inspections

Site	Location	Service	Last date of inspection	Remarks	Approvals granted	Capacity
Kilo Lab	Turkapally	API/ Ingredients/ Synthesis/ Contract Manufacturing			USFDA, KFDA and PMDA	43 reactors and capacity of 4.3 KL
Unit 1	Vishakhapatnam	API/ Ingredients/ Synthesis/ Contract Manufacturing	Jun-19	API facility inspected and EIR received in Nov-19	USFDA, WHO – Geneva, NIP – Hungary, KFDA, COFEPRIS, PMDA, ANVISA	323 reactors with 1,226 KL capacity
Unit 2	Vishakhapatnam (SEZ)	FDF and API	Nov-19	EIR received	BVG Hamburg Germany, USFDA, WHO – Geneva, and JAZMP – Slovenia and various African countries	FDF – 5 billion tablets/capsules API – 12 reactors with 83 KL
Unit 3	Vishakhapatnam	API/ Ingredients/ Synthesis/ Contract Manufacturing	Jun-19	API facility inspected and EIR received in Nov-19	USFDA, WHO – Geneva, NIP – Hungary, COFEPRIS, KFDA, ANVISA and JAZMP – Slovenia	259 reactors With 1,982 KL
Unit 4	Vishakhapatnam	API/ Ingredients/ Synthesis/ Contract Manufacturing	Jul-19	EIR received	WHO, USFDA and COFEPRIS – Mexico	54 reactors With 221 KL
Unit 5	Vishakhapatnam (SEZ)	Aspen dedicated for hormones and steroids				46 reactors With 137 KL
Unit 6	Vishakhapatnam (SEZ)	APIs- captive consumption			USFDA	68 reactors With 758 KL
LAURUS Synthesis	Vishakhapatnam	API/Intermediates			CDSCO, WHO GMP by CDSCO, PMDA, EDQM, FAMHP and MFDS	50 reactors with 156.73 KL
Sriam Labs	Vishakhapatnam	API/Intermediates			WHO GMP by CDSCO	32 reactors with 81.63 KL

Source: MOFSL, Company

Addition of new growth levers beyond ARV

New projects, client additions, Laurus Bio to drive Synthesis business

- LAURUS has built its Custom Synthesis business steadfastly over the past decade on the firm foundation of its chemistry skills. With the groundwork having already been laid out, new project additions are expected to increase at a faster rate than seen before. This is evident from the fact that while it took around a decade to reach 40 projects in Custom Synthesis up to FY20, it added 10 new projects in FY21, implying a 25% increase in active projects YoY.
- Furthermore, it is in the process of setting up a dedicated R&D center and two greenfield manufacturing facilities to support future growth. New larger manufacturing facilities could cater to the larger commercial-scale requirements of clients. This would enable multi-fold growth in revenues at better-than-company levels as well as in Formulations business margins.
- LAURUS clocked sales of INR5.2b, with 67% YoY growth in the Synthesis (CDMO) segment in FY21. This was largely led by: a) contract research projects and b) products moving toward commercialization from the research phase. The company is working with global innovators across the R&D value chain. We expect a 42% sales CAGR in the CDMO segment to INR10b over FY21–23E.

Laurus Bio – the making of an integrated biologics CDMO

- Laurus Bio marks LAURUS' entry into the Biotechnology space. The management is looking to explore CDMO opportunities to expand this division. A new capacity of 0.18m liters would turn operational in FY22. It is in the process of finalizing plans to take the total fermentation capacity to 1m liters. This would support LAURUS' efforts to be a strong player in the integrated Biologics CDMO space.
- Business from this segment could grow 2–3x over the next 2–3 years (from INR500m currently) and would contribute meaningfully over the next 5–6 years.

Market share gains in ARV/Non-ARV Regulated Markets business to drive growth in FDF

- The company is investing in a greenfield expansion program as well as debottlenecking, which would double its capacity to 10b tablets annually. The commercial benefit from the debottlenecking exercise would kick in over the near term. The greenfield expansion would be partly operational by FY22-end and would aid growth going forward.
- In addition to expanding its product portfolio in the ARV category, LAURUS is also building its ANDA product pipeline in therapeutic areas such as Cardiac/Diabetes and other Non-ARV segments (27 filed / 10 awaiting approval).
- We expect a 30% sales CAGR in FDF over FY21–23E, to reach INR28b by FY23E.

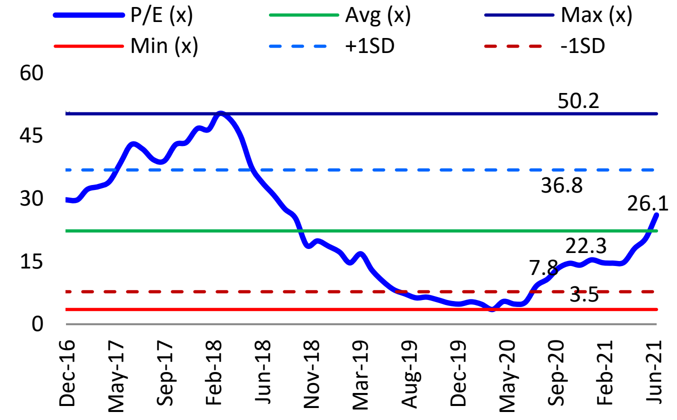
New capacity adds to support ARV & Non-ARV external/captive demand

- After posting strong 66% YoY growth in API sales, LAURUS is working on debottlenecking as well as brownfield/greenfield capacity expansions to cater to future demand in ARV/Non-ARV API. Almost 50% of its planned capex of INR15–17b would be spent on the API segment. We expect a 19% CAGR in API sales over FY21–23E.

Expect 29% EPS CAGR over FY21–23E

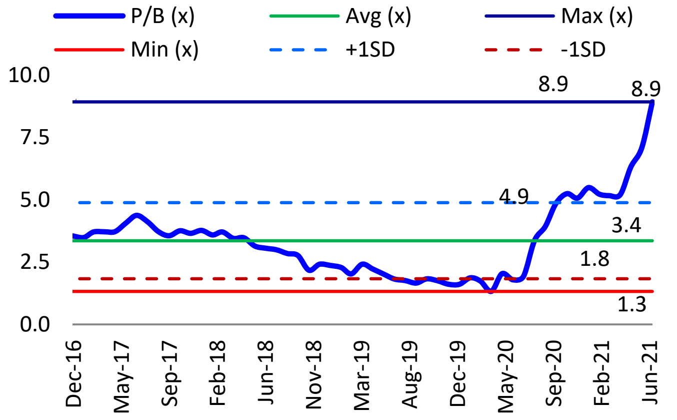
- We expect a 29% earnings CAGR over FY21–23E, led by a 30%/42%/19% sales CAGR in the FDF/Synthesis/API segment and ~80bp margin expansion.
- We remain positive on LAURUS on the back of a) its superior execution in the ARV segment, b) its strong chemistry skill sets, which is driving the CDMO business, c) the addition of new molecules in the Other API segment, d) Formulations business prospects for the regulated markets, and e) the addition of new levers in Biologics CDMO with Laurus Bio.

Exhibit 33: PE chart



Source: MOFSL, Company, Bloomberg

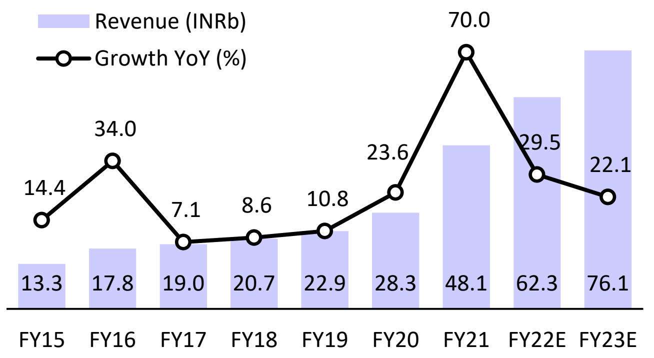
Exhibit 34: PB chart



Source: MOFSL, Company, Bloomberg

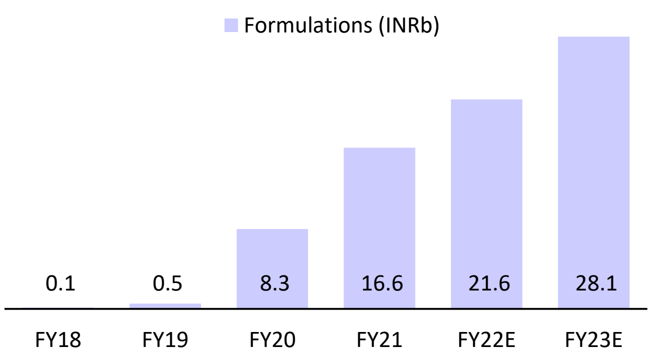
Story in charts

Exhibit 35: Revenue CAGR of 26% expected over FY21–23



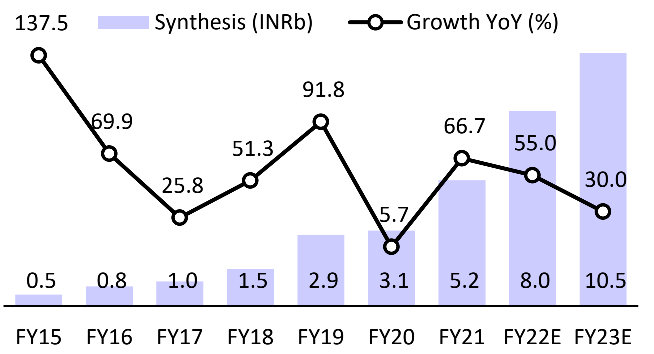
Source: MOFSL, Company

Exhibit 36: FDF contribution to overall sales on the rise



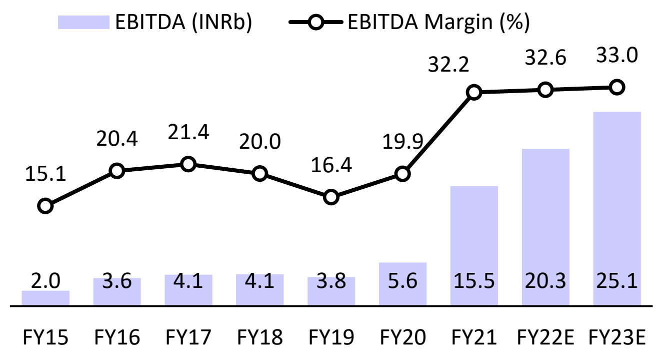
Source: MOFSL, Company

Exhibit 37: Synthesis biz. to post 42% CAGR over FY21–23



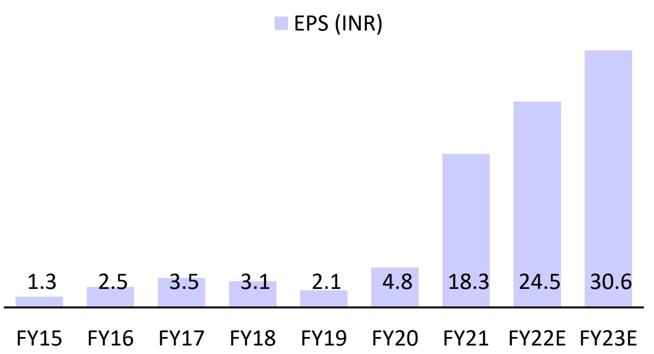
Source: MOFSL, Company

Exhibit 38: EBITDA margins to remain stable over FY21–23



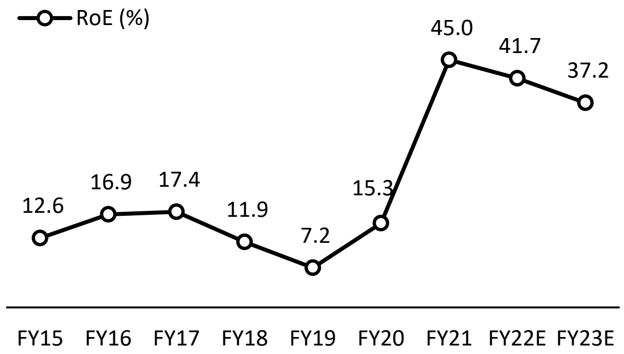
Source: MOFSL, Company

Exhibit 39: EPS CAGR of 29% expected over FY21–23



Source: MOFSL, Company

Exhibit 40: ROE to moderate, but remain healthy



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement (INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	**11,597**	**13,266**	**17,776**	**19,046**	**20,690**	**22,919**	**28,317**	**48,135**	**62,328**	**76,076**
Change (%)	61.4	14.4	34.0	7.1	8.6	10.8	23.6	70.0	29.5	22.1
Total Expenditure	**9,509**	**11,264**	**14,154**	**14,970**	**16,557**	**19,155**	**22,672**	**32,628**	**42,009**	**50,971**
% of Sales	82.0	84.9	79.6	78.6	80.0	83.6	80.1	67.8	67.4	67.0
EBITDA	**2,089**	**2,002**	**3,622**	**4,076**	**4,133**	**3,764**	**5,645**	**15,507**	**20,319**	**25,105**
Margin (%)	18.0	15.1	20.4	21.4	20.0	16.4	19.9	32.2	32.6	33.0
Depreciation	329	615	864	1,060	1,255	1,642	1,873	2,051	2,533	3,099
EBIT	**1,760**	**1,387**	**2,758**	**3,016**	**2,879**	**2,122**	**3,773**	**13,456**	**17,786**	**22,006**
Int. and Finance Charges	639	1,062	1,111	999	796	882	896	682	1,047	954
Other Income	88	341	44	334	292	162	59	237	249	304
PBT bef. EO Exp.	**1,209**	**666**	**1,690**	**2,352**	**2,374**	**1,402**	**2,936**	**13,011**	**16,988**	**21,357**
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**	**13,011**	**16,988**	**21,357**
Total Tax	236	-15	349	439	698	260	383	3,173	3,822	4,912
Tax Rate (%)	19.6	-2.3	20.6	18.7	29.4	21.7	13.1	24.4	22.5	23.0
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**	**9,838**	**13,166**	**16,445**
Adjusted PAT	**972**	**683**	**1,337**	**1,903**	**1,676**	**1,097**	**2,553**	**9,838**	**13,166**	**16,445**
Change (%)	10.2	-29.7	95.7	42.3	-11.9	-34.5	132.6	285.4	33.8	24.9
Margin (%)	8.4	5.2	7.5	10.0	8.1	4.8	9.0	20.4	21.1	21.6

Consolidated - Balance Sheet (INR m)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	154	155	158	1,058	1,060	1,064	1,069	1,073	1,073	1,073
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	24,902	36,086	50,054
minority interest								32	32	32
Net Worth	**3,584**	**7,241**	**8,568**	**13,304**	**14,826**	**15,584**	**17,698**	**26,007**	**37,190**	**51,158**
Total Loans	5,428	8,211	10,277	8,417	9,649	10,030	10,123	13,871	13,671	10,171
Deferred Tax Liabilities	118	113	-549	-699	-529	-534	-739	192	192	192
Capital Employed	**9,131**	**15,565**	**18,296**	**21,023**	**23,946**	**25,081**	**27,081**	**40,070**	**51,053**	**61,521**
Gross Block	6,230	9,865	11,063	14,088	17,851	20,976	23,821	27,949	34,597	41,926
Less: Accum. Deprn.	1,240	1,855	853	1,886	3,141	4,783	6,655	8,706	11,239	14,338
Net Fixed Assets	**4,989**	**8,010**	**10,210**	**12,202**	**14,711**	**16,193**	**17,166**	**19,243**	**23,357**	**27,588**
Goodwill on Consolidation	3	0	0	97	97	97	97	2,463	2,463	2,463
Capital WIP	1,161	1,097	696	1,433	1,632	1,096	672	3,622	4,474	4,645
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**	**32,145**	**41,851**	**51,780**
Inventory	3,281	4,755	4,871	5,090	5,848	6,819	9,052	15,755	20,629	25,449
Account Receivables	1,949	2,851	4,449	5,676	5,706	7,099	7,914	13,061	16,905	21,260
Cash and Bank Balance	232	589	288	41	31	30	17	485	633	575
Loans and Advances	1,117	1,562	1,103	1,262	1,580	1,408	1,605	2,845	3,684	4,496
Curr. Liability & Prov.	**3,601**	**3,373**	**3,390**	**4,812**	**5,692**	**7,697**	**9,477**	**17,437**	**21,127**	**24,989**
Account Payables	2,275	2,308	2,476	2,631	3,123	4,883	6,156	11,787	13,811	16,059
Other Current Liabilities	1,218	922	770	1,988	2,316	2,449	2,753	4,894	6,336	7,734
Provisions	109	143	144	193	253	365	568	757	980	1,196
Net Current Assets	**2,977**	**6,383**	**7,320**	**7,257**	**7,473**	**7,660**	**9,112**	**14,708**	**20,724**	**26,791**
Appl. of Funds	**9,131**	**15,565**	**18,296**	**21,023**	**23,946**	**25,081**	**27,081**	**40,070**	**51,053**	**61,521**

Financials and valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)										
EPS	**1.8**	**1.3**	**2.5**	**3.5**	**3.1**	**2.1**	**4.8**	**18.3**	**24.5**	**30.6**
Cash EPS	2.4	2.4	4.1	5.5	5.5	5.1	8.3	22.2	29.4	36.6
BV/Share	6.7	13.5	16.0	24.9	27.7	29.2	33.1	48.7	69.6	95.7
DPS	0.0	0.0	0.1	0.3	0.0	0.3	0.6	2.3	3.1	3.9
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	366.8	521.7	271.0	189.5	212.7	324.9	140.2	36.4	27.2	21.8
Cash P/E	274.1	274.6	163.6	121.2	121.7	130.2	80.6	30.0	22.7	18.2
P/BV	99.5	49.2	41.6	26.8	24.0	22.9	20.1	13.7	9.6	7.0
EV/Sales	31.2	27.5	20.6	19.2	17.7	16.0	12.9	7.7	5.9	4.8
EV/EBITDA	173.2	181.9	101.2	89.5	88.6	97.4	64.9	23.9	18.2	14.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.3	0.5	0.6
FCF per share	-3.5	-8.4	-2.7	1.0	-1.0	0.7	2.0	0.9	5.9	12.3
Return Ratios (%)										
RoE	31.5	12.6	16.9	17.4	11.9	7.2	15.3	45.0	41.7	37.2
RoCE	20.5	14.4	13.0	13.4	9.7	7.1	12.5	30.6	30.8	30.6
RoIC	25.4	14.0	14.6	13.5	9.7	7.2	13.0	32.7	33.7	33.2
Working Capital Ratios										
Inventory (Days)	103	131	100	98	103	109	117	119	121	122
Debtor (Days)	61	78	91	109	101	113	102	99	99	102
Creditor (Days)	72	64	51	50	55	78	79	89	81	77
Leverage Ratio (x)										
Current Ratio	1.8	2.9	3.2	2.5	2.3	2.0	2.0	1.8	2.0	2.1
Interest Cover Ratio	2.8	1.3	2.5	3.0	3.6	2.4	4.2	19.7	17.0	23.1
Net Debt/Equity	1.4	1.0	1.2	0.6	0.6	0.6	0.6	0.5	0.3	0.2

Consolidated - Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	1,209	666	1,690	2,352	2,374	1,198	2,936	13,011	16,988	21,357
Depreciation	329	615	864	1,060	1,255	1,642	1,873	2,051	2,533	3,099
Interest & Finance Charges	515	862	1,038	931	505	720	837	579	797	649
Direct Taxes Paid	-234	-168	-333	-501	-698	-260	-383	-2,285	-3,822	-4,912
(Inc)/Dec in WC	-593	-2,507	-1,544	-525	-226	-187	-1,465	-5,941	-5,868	-6,125
CF from Operations	**1,225**	**-531**	**1,716**	**3,317**	**3,209**	**3,113**	**3,797**	**7,415**	**10,628**	**14,068**
Others	-13	-116	103	3	216	-136	-323	-85	0	0
CF from Operating incl EO	**1,212**	**-647**	**1,820**	**3,320**	**3,425**	**2,977**	**3,474**	**7,330**	**10,628**	**14,068**
(Inc)/Dec in FA	-3,058	-3,821	-3,262	-2,774	-3,962	-2,589	-2,421	-6,839	-7,500	-7,500
Free Cash Flow	**-1,846**	**-4,469**	**-1,443**	**546**	**-537**	**387**	**1,053**	**491**	**3,128**	**6,568**
(Pur)/Sale of Investments	-60	-148	140	-113	0	0	0	-2,584	0	0
Others	-1	0	0	0	120	60	210	13	249	304
CF from Investments	**-3,120**	**-3,970**	**-3,122**	**-2,887**	**-3,842**	**-2,529**	**-2,211**	**-9,410**	**-7,251**	**-7,196**
Issue of Shares	1	2,944	3	2,860	3	4	5	74	0	0
Inc/(Dec) in Debt	2,503	2,745	2,063	-2,387	1,278	429	139	3,804	-200	-3,500
Interest Paid	-474	-828	-1,033	-950	-796	-882	-896	-580	-1,047	-954
Dividend Paid	0	0	0	-59	0	-191	-384	-750	-1,983	-2,477
CF from Fin. Activity	2,030	4,861	1,033	-536	422	-448	-1,277	2,547	-3,229	-6,930
Inc/Dec of Cash	**123**	**244**	**-269**	**-103**	**6**	**0**	**-14**	**467**	**148**	**-58**
Opening Balance	**27**	**150**	**394**	**127**	**23**	**29**	**28**	**15**	**483**	**631**
Closing balance	**150**	**394**	**127**	**23**	**29**	**28**	**15**	**483**	**631**	**573**
Bank balance	82	195	161	18	2	2	2	2	2	2
Total Cash and Cash equivalent	**232**	**589**	**288**	**41**	**31**	**30**	**17**	**485**	**633**	**575**

NOTES

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Financial Services Ltd. (MOFSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOFSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOFSL is a subsidiary company of Passionate Investment Management Pvt. Ltd.. (PIMPL). MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOFSL (erstwhile Motilal Oswal Securities Limited - MOSL) is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Multi Commodity Exchange of India Limited (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) National Securities Depository Limited (NSDL),NERL, COMRIS and CCRL and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products and Insurance Regulatory & Development Authority of India (IRDA) as Corporate Agent for insurance products. Details of associate entities of Motilal Oswal Financial Services Limited are available on the website at http://onlinereports.motilaloswal.com/Dormant/documents/List%20of%20Associate%20companies.pdf

MOFSL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report

MOFSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOFSL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. Details of pending Enquiry Proceedings of Motilal Oswal Financial Services Limited are available on the website at https://galaxy.motilaloswal.com/ResearchAnalyst/PublishViewLitigation.aspx

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOFSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOFSL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL & its group companies to registration or licensing requirements within such jurisdictions.

For Hong Kong:

This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

For U.S.

Motilal Oswal Financial Services Limited (MOFSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the"1934 act") and under applicable state laws in the United States. In addition MOFSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOFSL , including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOFSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore

In Singapore, this report is being distributed by Motilal Oswal Capital Markets Singapore Pte Ltd ("MOCMSPL") (Co.Reg. NO. 201129401Z) which is a holder of a capital markets services license and an exempt financial adviser in Singapore.As per the approved agreement under Paragraph 9 of Third Schedule of Securities and Futures Act (CAP 289) and Paragraph 11 of First Schedule of Financial Advisors Act (CAP 110) provided to MOCMSPL by Monetary Authority of Singapore. Persons in Singapore should contact MOCMSPL in respect of any matter arising from, or in connection with this report/publication/communication. This report is distributed solely to persons who qualify as "Institutional Investors", of which some of whom may consist of "accredited" institutional investors as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Accordingly, if a Singapore person is not or ceases to be such an institutional investor, such Singapore Person must immediately discontinue any use of this Report and inform MOCMSPL.

Specific Disclosures

1 MOFSL, Research Analyst and/or his relatives does not have financial interest in the subject company, as they do not have equity holdings in the subject company.
2 MOFSL, Research Analyst and/or his relatives do not have actual/beneficial ownership of 1% or more securities in the subject company
3 MOFSL, Research Analyst and/or his relatives have not received compensation/other benefits from the subject company in the past 12 months
4 MOFSL, Research Analyst and/or his relatives do not have material conflict of interest in the subject company at the time of publication of research report
5 Research Analyst has not served as director/officer/employee in the subject company
6 MOFSL has not acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
7 MOFSL has not received compensation for investment banking/ merchant banking/brokerage services from the subject company in the past 12 months
8 MOFSL has not received compensation for other than investment banking/merchant banking/brokerage services from the subject company in the past 12 months
9 MOFSL has not received any compensation or other benefits from third party in connection with the research report
10 MOFSL has not engaged in market making activity for the subject company

The associates of MOFSL may have:

- financial interest in the subject company
- actual/beneficial ownership of 1% or more securities in the subject company
- received compensation/other benefits from the subject company in the past 12 months

- other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
- acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
- be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies)
- received compensation from the subject company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.

The associates of MOFSL has not received any compensation or other benefits from third party in connection with the research report

Above disclosures include beneficial holdings lying in demat account of MOFSL which are opened for proprietary investments only. While calculating beneficial holdings, It does not consider demat accounts which are opened in name of MOFSL for other purposes (i.e holding client securities, collaterals, error trades etc.). MOFSL also earns DP income from clients which are not considered in above disclosures.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Terms & Conditions:

This report has been prepared by MOFSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOFSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOFSL will not treat recipients as customers by virtue of their receiving this report.

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOFSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of MOFSL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOFSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOFSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOFSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 71934200/ 022-71934263; Website www.motilaloswal.com.CIN no.: L67190MH2005PLC153397.Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad(West), Mumbai-400 064. Tel No: 022 7188 1000.

Registration Nos.: Motilal Oswal Financial Services Limited (MOFSL)*: INZ000158836(BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412. AMFI: ARN - 146822; Investment Adviser: INA000007100; Insurance Corporate Agent: CA0579;PMS:INP000006712. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670); PMS and Mutual Funds are offered through MOAMC which is group company of MOFSL. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) is offered through MOWML, which is a group company of MOFSL. Motilal Oswal Financial Services Limited is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs,Insurance Products and IPOs.Real Estate is offered through Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. which is a group company of MOFSL. Private Equity is offered through Motilal Oswal Private Equity Investment Advisors Pvt. Ltd which is a group company of MOFSL. Research & Advisory services is backed by proper research. Please read the Risk Disclosure Document prescribed by the Stock Exchanges carefully before investing. There is no assurance or guarantee of the returns. Investment in securities market is subject to market risk, read all the related documents carefully before investing. Details of Compliance Officer: Name: Neeraj Agarwal, Email ID: na@motilaloswal.com, Contact No.:022-71881085.

* MOSL has been amalgamated with Motilal Oswal Financial Services Limited (MOFSL) w.e.f August 21, 2018 pursuant to order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Bench.