Date: 03/05/2020
Company: Laurus Labs Ltd.
Industry: Pharmaceuticals

Result Snapshot

Amt. in Rs. Crs.	Q4FY20	Q3FY20	Q-o-Q(%)	Q4FY19	Y-o-Y(%)
Revenue	839.14	729.59	15.0%	635.16	32.1%
Other Income	1.68	1.92		1.62	
Total Income	840.82	731.51	14.9%	636.78	32.0%
EBITDA	191.77	148.17	29.4%	111.99	71.2%
EBIDTA (%)	22.9%	20.3%		17.6%	
EBIT	145.72	100.62	44.8%	68.51	112.7%
PBT	126.74	81.71	55.1%	52.57	141.1%
PAT	110.15	73.48	49.9%	43.26	154.6%
PAT%	13.1%	10.0%		6.8%	

Result / Con-call Highlights:

1) Result Update:

Laurus Labs reported a consecutive beat with best-ever topline of Rs. 839 cr up by 15% Q-o-Q with an EBITDA of Rs. 191 cr and an EBITDA margin of 22.9%. PAT came in at Rs. 110 cr up by 50% from Rs. 73 cr reported in Q3 FY20. Laurus Labs also declared a final dividend of Rs. 1 / share apart from the interim dividend of Rs. 1.5 / share declared in March 2020. The company also recommended sub-division of equity shares of the company from 1 equity share of Rs. 10 face value to 5 equity shares of Rs. 2 face value.

2) Segmental Update:

Segmental Revenue	Q4 FY20	Q3 FY20	Q-o-Q	Q4 FY19	Y-o-Y
Generic FDF	267.3	292.1	-8.5%	28.2	847.9%
Synthesis	147.9	78.2	89.1%	110.1	34.3%
Anti-Viral	272.8	213.6	27.7%	356.8	-23.5%
Oncology	59.1	46.8	26.3%	70.8	-16.5%
Other API	92	98.9	-7.0%	69.3	32.8%
Total	**839.1**	**729.6**		**635.2**	

Generic FDF: The robust growth was led by higher sales from tender business in LMIC (Lower Middle Income Countries). The company is having strong order book for upcoming quarters.
Synthesis: Growth was led by higher contribution from CDMO (Contract Development and Manufacturing Organization) business.
Anti-Viral: The revenue on Y-o-Y basis was lower mainly due to lower off-take of Efavirenz and FTC API's due to delay in awarding supplementary tender in South Africa

Result / Con-call Highlights: (Continued)

3) CAPEX:

In FY20, Laurus Labs did a CAPEX of ~ Rs. 230 cr . As the company recognizes an opportunity in generic FDF and API infrastructure, they would be incurring a CAPEX above Rs. 300 cr in the current fiscal year. This brown field capex is expected to have shorter payback period and be ROCE accretive. Of the CAPEX planned for this financial year, Rs. 60 cr would be utilized for debottlenecking, buying bigger equipment's and filling up empty slots. Another Rs. 200 – 250 cr would be utilized for brownfield expansion in one of their newer building. According to management's guidance, the entire Rs. 300 cr CAPEX can generate 1.5x to 2x revenue by FY22.

Formulation capacity expansion initiated in the existing building will be operational by September 2020; whereas CAPEX done in newer building will be operational in the mid of next financial year i.e. FY22.

4) Hydroxychloroquine HCQ

Hydroxychloroquine launched in March 2020 in US by our partner. It is too early to predict the quantum of revenue that is going to come from HCQ. The company has created enough capacities for API and formulations. If and when an opportunity prevails, the company is ready to take the full advantage of it.

5) Other Updates

- The company's tender business is around 20% of the revenue and management expects it to remain at the same level going forward
- As of today, formulation segment is running at full capacity. The only way to improve volumes going forward is by changing the product mix or by de bottlenecking.
- Capacity: Reactor Volume are at 4 mn lts. The company plans to increase the reactor volume by 0.5 mn lts in October/ November this year and another 0.5 mn lts would be added by February/March 2021 bringing the total reactor volume to 5 mn lts.
- For Synthesis segment, there was one big order executed in Q4 FY20 which will again be executed in Q4 FY21. As a whole FY21 synthesis division revenue will show good growth.
- Air freight charges have gone up significantly over the past month

6) Outlook

With a consistent robust performance over the past few quarters and an increase in EBITDA share from high margin businesses (synthesis and formulations) laurus labs has embarked upon a good growth trajectory. We expect formulation segment to further aid EBITDA margins led by higher capacities.

Laurus labs has also filed for 26 ANDA's with 6 final approvals and 5 tentative approvals in place. Given the current valuations we assign an Accumulate rating to the stock and opine to buy on dips.

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