

Laurus adds capabilities in biotech

Laurus acquired 72.5% stake in Richcore Lifesciences Pvt Ltd for Rs2.5bn funded through internal accruals. Laurus will be acquiring existing shareholding of PE funds Eight Road Ventures and VenturEast, while the existing founder and promoter will continue to run the operations. The transaction will be completed in ~3 months. The acquisition is over and above the Rs12bn capex program.

About Richcore

The company has capabilities in vaccine manufacturing and specializes in insulin and animal free recombinant products and fermentation based capabilities. Majority of its revenues come from exports. It currently has an R&D facility which manufactures launch scale quantities and has capacity of 17,750 L. Another facility of 180,000 L is expected to commence operations from Apr'21. Richcore has a revenue base of Rs291mn, gross margins of 69% and EBITDA margins of 39% as on 1HFY21. Management guided for a better 2HFY21E. Based on the new plant, revenue base is expected to improve significantly from FY22E onwards.

Rationale for acquisition

Laurus' current Custom Synthesis business is 10% of total sales and largely supplies hormonal intermediaries to Aspen and NCE intermediaries to other innovators. Richcore brings to the table its CDMO capabilities, synergy from fermentation in its chemical processes shall help in backward integration of certain steroid based intermediates. Laurus will utilize the expertise in enzymes design and manufacturing, while it will use ingredients to produce enzymes for non-therapeutic use (health and nutrition). The larger opportunity of CRAMS for recombinant protein shall gather pace steadily. With a gross block of Rs900mn, management expects to achieve A/O of 2x upon optimum utilization. Laurus will not make any fresh investments in the capex.

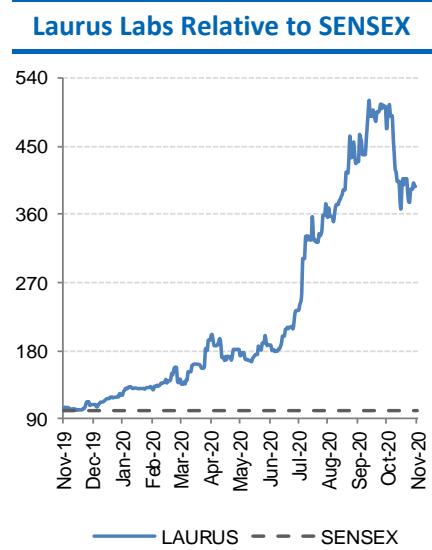
Valuation and View

Laurus is largely a chemistry based company and does not have expertise in biology. The current acquisition is a good fit for Laurus as it will fill the gap in the existing business profile. Further, the acquisition is reasonably valued at 6x sales with Laurus not having to invest anything beyond the stake. The growth at Richcore seems to be sustainable with an optionality of CDMO and enzymes. Though, the acquisition might not add significantly to the profitability in the near term, we are of the view that it will be EPS accretive in the medium term.

FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	22,919	28,317	43,737	49,891	56,594
Growth(%)	11.5	23.6	54.5	14.1	13.4
EBITDA	3,560	5,645	13,403	14,635	17,204
OPM(%)	15.5	19.9	30.6	29.3	30.4
PAT	938	2,553	8,284	9,138	11,010
Growth(%)	(44.1)	172.2	224.5	10.3	20.5
EPS(Rs.)	1.7	4.8	15.5	17.0	20.5
Growth(%)	(44.1)	172.2	224.5	10.3	20.5
PER(x)	167.1	61.4	18.9	17.1	14.2
ROANW(%)	6.2	15.3	37.9	29.9	27.1
ROACE(%)	7.3	12.9	27.5	22.9	22.0

CMP	Rs 292
Target / Upside	Rs 400 / 37%
NIFTY	12,858
Scrip Details	
Equity / FV	Rs 1,072mn / Rs 10
Market Cap	Rs 157bn
	USD 2bn
52-week High/Low	Rs 345 / 59
Avg. Volume (no)	4,060,230
Bloom Code	LAURUS IN
Price Performance	
	1M 3M 12M
Absolute (%)	(10) 23 314
Rel to NIFTY (%)	(10) 25 321
Shareholding Pattern	
	Mar'20 Jun'20 Sep'21
Promoters	32.1 32.1 32.0
MF/Banks/FIs	3.3 20.4 15.2
FII	20.7 16.1 11.3
Public / Others	43.9 31.4 41.5



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While the near term growth will be aided by ARV based API and formulations for Laurus (75% of business is tender based), we are of the view that Laurus is gradually building up growth levers in form of formulations, oncology API and CDMO. We maintain our earnings growth estimates at 15% for FY21-23E. At CMP, the stock is valued at 17x FY22 and 14x FY23E.

Concall Highlights

Growth Driver: Company will become self-reliant in enzymes which will make them cost competitive as it is a volume business driven by cost. While the larger opportunity lies in the CDMO business in recombinant technology. Currently the recombinant proteins are used for non-therapeutic use (food industry), in the medium term, management remains confident on therapeutic biologics CDMO to be major growth driver.

Capex: Management guided for an A/O of 2x on the current gross block of Rs900mn for FY21. Its current expansion of new plant, Unit 2 is expected to commence operations from April'21 and has been booked entirely by an existing customer. This shall free up the existing capacity to make exhibit batches for other clients. Further, the company has also bought a new land and shall commence construction by next year. Majority of the capex will be funded through internal accruals.

Business Mix: Current revenue of Rs600mn (annualized) is equally split between biotech, enzymes and CDMO. Once the CDMO plant commissions majority of the revenue will come from there in FY22E. The facility will be utilized for food industry and the product will be unique (innovator).

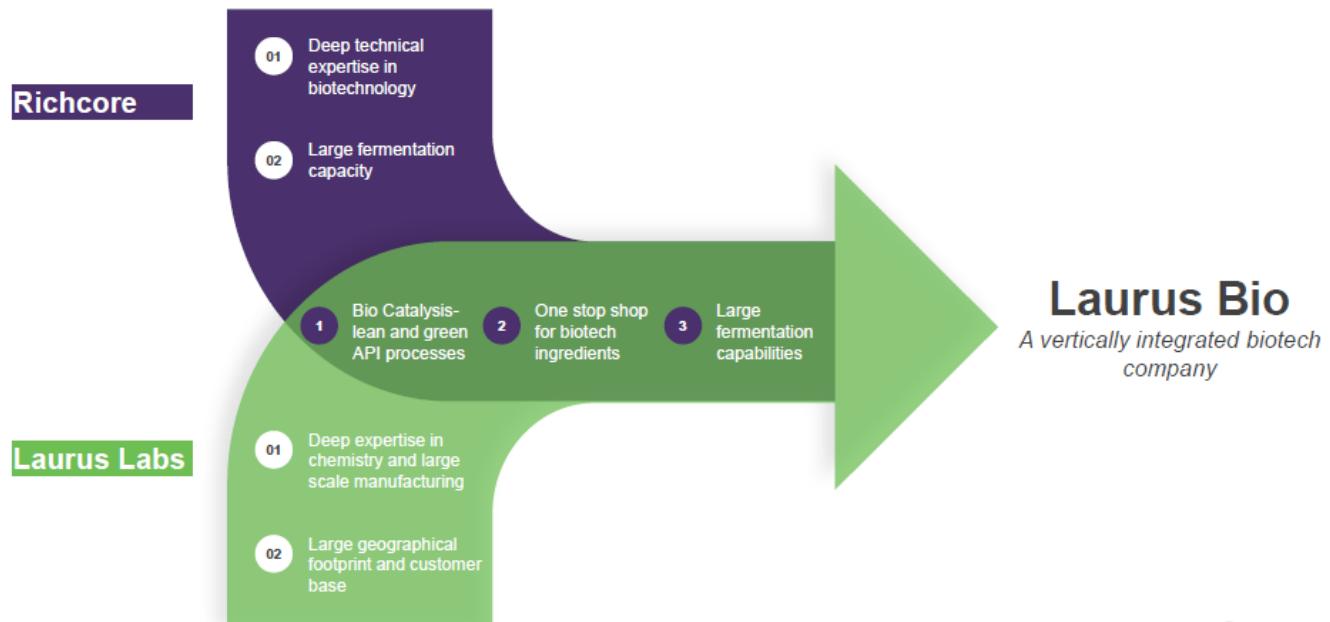
Debt: Company has debt of Rs90mn and is expected to increase to Rs150mn by end of FY21E.

Exhibit 1: Current Products and Applications

Products	Vaccine Manufacturing	Insulin Manufacturing	Biopharma	Cell Culture	Cultured Meat
Recombinant Trypsin	✓	✓	✓	✓	✓
Recombinant Human Albumin	✓			✓	✓
Recombinant Carboxypeptidase B	✓	✓	✓		
Recombinant Transferrin			✓	✓	✓
Recombinant Thermolysin			✓	✓	
Recombinant IGF – LR3			✓	✓	✓
Recombinant Collagenase				✓	
Recombinant EGF				✓	✓
Recombinant FGFb				✓	✓

Source: Company, DART

Exhibit 2: Synergy and Value Creation



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	28,317	43,737	49,891	56,594
Total Expense	22,672	30,333	35,256	39,389
COGS	14,134	19,536	22,310	24,917
Employees Cost	3,449	4,333	4,947	5,616
Other expenses	5,089	6,464	7,999	8,856
EBIDTA	5,645	13,403	14,635	17,204
Depreciation	1,873	2,060	2,369	2,724
EBIT	3,773	11,343	12,266	14,480
Interest	896	806	766	728
Other Income	59	83	216	363
Exc. / E.O. items	0	0	0	0
EBT	2,936	10,621	11,716	14,115
Tax	383	2,337	2,577	3,105
RPAT	2,553	8,284	9,138	11,010
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	2,553	8,284	9,138	11,010

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	1,069	1,072	1,072	1,072
Minority Interest	0	0	0	0
Reserves & Surplus	16,629	24,913	34,051	45,060
Net Worth	17,698	25,985	35,123	46,132
Total Debt	9,555	11,555	12,555	11,555
Net Deferred Tax Liability	622	678	741	810
Total Capital Employed	27,875	38,218	48,419	58,497

Applications of Funds

Net Block	17,263	20,784	22,138	22,760
CWIP	672	773	888	1,022
Investments	371	371	371	371
Current Assets, Loans & Advances	18,458	27,041	35,981	46,047
Inventories	9,052	11,420	12,224	13,357
Receivables	7,914	11,883	13,299	14,793
Cash and Bank Balances	17	1,542	7,951	15,051
Loans and Advances	735	1,137	1,298	1,473
Other Current Assets	739	1,059	1,209	1,373
Less: Current Liabilities & Provisions	8,889	10,749	10,959	11,702
Payables	6,156	7,742	7,890	8,537
Other Current Liabilities	2,733	3,007	3,069	3,165
<i>sub total</i>				
Net Current Assets	9,569	16,291	25,022	34,345
Total Assets	27,875	38,218	48,419	58,497

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	50.1	55.3	55.3	56.0
EBIDTA Margin	19.9	30.6	29.3	30.4
EBIT Margin	13.3	25.9	24.6	25.6
Tax rate	13.1	22.0	22.0	22.0
Net Profit Margin	9.0	18.9	18.3	19.5
(B) As Percentage of Net Sales (%)				
COGS	49.9	44.7	44.7	44.0
Employee	12.2	9.9	9.9	9.9
Other	18.0	14.8	16.0	15.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.5	0.4	0.4	0.3
Interest Coverage	4.2	14.1	16.0	19.9
Inventory days	117	95	89	86
Debtors days	102	99	97	95
Average Cost of Debt	9.4	7.6	6.4	6.0
Payable days	79	65	58	55
Working Capital days	123	136	183	222
FA T/O	1.6	2.1	2.3	2.5
(D) Measures of Investment				
AEPS (Rs)	4.8	15.5	17.0	20.5
CEPS (Rs)	8.3	19.3	21.5	25.6
DPS (Rs)	0.8	2.4	2.4	2.4
Dividend Payout (%)	17.7	15.6	14.1	11.7
BVPS (Rs)	33.0	48.5	65.5	86.1
RoANW (%)	15.3	37.9	29.9	27.1
RoACE (%)	12.9	27.5	22.9	22.0
RoAIC (%)	14.2	35.2	31.8	34.5
(E) Valuation Ratios				
CMP (Rs)	292	292	292	292
P/E	61.4	18.9	17.1	14.2
Mcap (Rs Mn)	156,700	156,700	156,700	156,700
MCap/ Sales	5.5	3.6	3.1	2.8
EV	166,238	166,713	161,304	153,204
EV/Sales	5.9	3.8	3.2	2.7
EV/EBITDA	29.4	12.4	11.0	8.9
P/BV	8.9	6.0	4.5	3.4
Dividend Yield (%)	0.3	0.8	0.8	0.8
(F) Growth Rate (%)				
Revenue	23.6	54.5	14.1	13.4
EBITDA	58.6	137.4	9.2	17.6
EBIT	96.7	200.7	8.1	18.1
PBT	145.2	261.7	10.3	20.5
APAT	172.2	224.5	10.3	20.5
EPS	172.2	224.5	10.3	20.5

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	3,305	6,176	10,165	12,443
CFI	(2,265)	(5,681)	(3,839)	(3,480)
CFF	(1,066)	1,029	83	(1,863)
FCFF	1,041	495	6,326	8,963
Opening Cash	30	17	1,542	7,951
Closing Cash	5	1,542	7,951	15,051

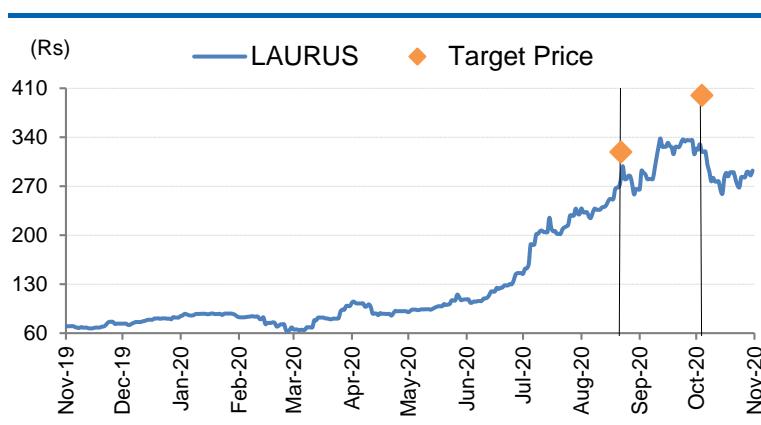
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Sep-20	Accumulate	319	280
Oct-20	Buy	400	319

*Price as on recommendation date

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