

Laurus Lab Ltd: Good Issue

IPO Note : leadership in generic active pharmaceutical ingredients (APIs) for select, high-growth therapeutic areas of antiretrovirals (ARVs) and Hepatitis C Ranking***



Issue details

Price band (Rs)	Rs.426-428
IPO Opening Date	06/12/16
IPO Closing Date	08/12/16
Issue Size	Rs.1331 Cr.

Recommendation

Total revenue grew at a CAGR of 23.81% from Rs.1168.53 Cr for the year end March 2014 to Rs.1791.36 Cr for the year end March 2016. Net profit after tax grew from Rs.97.22 Cr. for the financial year 2014 to Rs.132.65 crore for the financial year 2016. In the last three year, net profit grew at a CAGR of 16.81% from FY 14 to FY16. For first half ended on 30.09.16 of current fiscal, it has earned the net profit of Rs. 75.10 cr. on a turnover of Rs.941.79 cr. If we consider first six month of FY17 earnings to fully diluted equity of Rs. 105.75 crore then the asking price at the upper band is at a P/E of 30.14. In FY 16 it reported EPS of Rs.12.54 and on this, its offer price at a PE of 34+. The company's total consolidated debt was Rs.1132.42 crore in September 2016 and debt equity ratio was 1.21. Post IPO its current paid up equity capital will be enhanced to Rs.105.75 crore. **The listed peers like Lupin and Auropharma stocks are trading at a TTM PE of 23 and 19 respectively. Looking at the high debt and offered price at high PE of 30+, the issue seems expensive. The listing gain may or may not be there. It's a good company for long term investment. High-risk investors can invest with the long-term horizon.**

Highlights

- Laurus Labs launched 59 products since inception in 2005
- Nine out of the 10 largest generic pharmaceutical companies in the world are its customers
- Laurus Labs employed 587 scientists at our R&D center in Hyderabad and 12 scientists at R&D centre in Greater Boston USA
- The Company owned 32 patents and had 150 pending patent applications, in several countries
- Company has three manufacturing facilities in Visakhapatnam, Andhra Pradesh
- Company sells its products in 32 countries in Sub-Saharan Africa, South-East Asia and Latin America

Company Introduction

Laurus Lab is a leading research and development (“R&D”) driven pharmaceutical company in India, with a leadership position in generic active pharmaceutical ingredients (“APIs”) for select, high-growth therapeutic areas of anti-retrovirals (“ARVs”) and Hepatitis C. The company also manufactures APIs in oncology and other therapeutic areas. Its strategic and early investments in R&D and manufacturing infrastructure have enabled to become one of the leading suppliers of APIs in the ARV therapeutic area to multi-national pharmaceutical formulation companies which cater to the large and fast-growing “donor-funded access-to-medicines markets” of Sub-Saharan Africa, South-East Asia and Latin America. During the financial year 2016, the company sold APIs in 32 countries. The company also have growing synthesis and nutraceutical/cosmeceutical ingredients businesses. Further, the company is increasingly focused towards growing integrated generics finished dosage forms (“FDFs”) business in which we have made significant investments over the last two financial years.

Operations in four business lines:

- Generics active pharmaceutical ingredients (APIs) - The



Financial Summary (Rs. In Crore)

Particulars	For the six month ended September 2016	FY16	FY15	FY14
Total Revenue	941.78	1791.36	1360.66	1168.53
Net Profit	75.1	132.65	68.36	97.22
EPS (Rs)**	7.1*	12.54	6.46	9.19

*EPS not annualize

**EPS on fully diluted equity of 105.75 crore

Source: RHP and ACE Equity

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

development, manufacture and sale of APIs and advanced intermediates

- Generics finished dosage forms (FDFs) - The development and manufacture of oral solid formulations
- Synthesis - Contract development and manufacturing services for global pharmaceutical companies
- Ingredients - The manufacture and sale of specialty ingredients for use in the nutraceutical and cosmeceutical sectors.

Financial

For the six months ended September 30, 2016 and the financial years 2016, 2015 and 2014, total revenues were 941.78 crore, 1791.36 crore, 1360.66 crore and 1168.53 crore, respectively. For the six months ended September 30, 2016 and the financial years 2016, 2015, and 2014, restated profit for the year was 75.10 crore, 132.65 crore, 68.36 crore and 97.21 crore, respectively.

The object of the issue

- Pre-payment of term loans
- General corporate purposes

IPO Issue Proceed

To part finance its debt repayment/pre-payment plans and for general corporate purpose fund needs, the company is coming out with a maiden IPO of combo offer with fresh equity issue worth Rs. 300 crore (approx 70.03 lakh shares at the upper price band) and offer for sale by existing stakeholders of 2.41 equity shares (worth approx. Rs. 1031 crore at the upper price band). Thus the aggregate size of the issue is around Rs. 1331 crore. Issue opens for subscription on 06.12.16 and will close on 08.12.16. Price band for the issue is Rs. 258-268. Minimum application is to be made for 35 shares and in multiples thereon. Post allotment, shares will be listed on BSE and NSE. Its current paid up equity capital of Rs. 98.75 crore will stand enhanced to Rs. 105.75 crore.

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