

Incorporated on September 19, 2005, Laurus Labs Limited is the 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’s strategic and early investments in R&D and manufacturing infrastructure has enabled it 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 its APIs in 32 countries. It also has growing synthesis and nutraceutical/cosmeceutical ingredients businesses. Further, it is increasingly focused towards growing its integrated generics finished dosage forms (“FDFs”) business in which we have made significant investments over the last two financial years.

Today, the Company operates in four business lines: Generics – APIs, Generics – FDFs, Synthesis and Ingredients. The Generics – API business comprises the development, manufacture and sale of APIs and advanced intermediates; Generics – FDF business comprises the development and manufacture of oral solid formulations; Synthesis business includes contract development and manufacturing services for global pharmaceutical companies; and its ingredients business comprises the manufacture and sale of specialty ingredients for use in the nutraceutical and cosmeceutical sectors. As of September 30, 2016, the Company owned 34 patents and had 152 pending patent applications, in several countries.

It currently operates three manufacturing facilities in Visakhapatnam, Andhra Pradesh. Two of its facilities manufacture APIs and ingredients, while its third facility is for the manufacturing of APIs and FDFs. As of September 30, 2016, its operational manufacturing facilities had 435 reactors and an aggregate reactor volume of 1,833.6 KL. The Company also has a kilo lab near Hyderabad, Telangana and is also in the process of setting up two additional manufacturing facilities, one for potent APIs (expected to commence operations by December 31, 2016) and the other for APIs, intermediates and ingredients (expected to commence construction during the financial year 2017). Post its planned expansion, the aggregate reactor volume will increase to 2,095.6 KL during the financial year 2017. Its manufacturing facilities have received one or more approvals from World Health Organization (“WHO”), US FDA, National Institute of Pharmacy Hungary (“NIP Hungary”), PMDA. The Company has launched 59 products since its inception in 2005. Its key customers include Aspen Pharmacare Limited, Aurobindo Pharma Limited, Cipla Limited, Mylan Laboratories Limited, NATCO Pharma Limited (“NATCO”) and Strides Shasun Limited. For the financial year 2016, nine out of the 10 largest generic pharmaceutical companies in the world, by revenue, were the customers of the Company. Laurus Labs currently develops and manufactures specialty ingredients for use in Nutraceutical, Dietary Supplements and Cosmeceutical products.

The Company has witnessed consistent growth over the last five financial years both in terms of topline and bottomline. Its total revenues, on a standalone basis, has registered at a CAGR of 41 percent from Rs 4,523.07 mn for FY12 to Rs.17,884.15 mn for FY16 and its restated profit for the year, on a standalone basis, has seen a CAGR of 60.6% from Rs215.77 million for the financial year 2012 to Rs1,43 5.68 million for FY16.

Issue date	Dec. 6 – 8, 2016
Type of issue	Fresh Issue: Rs. 3,000 mn Offer for sale: 24,107,440 shares Bookbuilding
Face Value	Rs. 10
Price Band	Rs. 426 – Rs. 428 per share
Lot size	35 equity Shares & multiple of 35 equity shares thereafter
Equity shares post issue	105.746 mn equity shares
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%
Post issue market cap	Rs. 45,259 mn at upper price band
Book Running Lead Managers	Kotak Mahindra Capital, Citigroup, Jefferies, SBI Capital Markets
Registrar to the issue	Karvy Computershare Pvt. Ltd.

Y/e 31 Mar (Rs. mn)	H1FY17	FY16	FY15
Revenue from operat.	9,296	17,838	13,266
EBITDA	2,088	3,798	2,343
OPM (%)	22.46	21.29	17.66
PAT	751	1,327	684
PAT (%)	8.08	7.44	5.16
Equity Capital	987.47	823.80	821.25
Post issue EPS (Rs.)	14.20	12.55	6.47
Networth (Rs. mn)	9289.38	8,518.19	7,131
P/E (x) at Rs. 428	#30	34	66
RoE (%)	-	15.6	9.59

Source: RHP, Ajcon Research

Investment Rationale and Recommendation

At the upper end of the price band of Rs. 428, the IPO is valued at 30x at H1FY17 annualised Post issue EPS which is at a premium to its peers. We, however believe the premium is justified due to the following factors like a) leadership in APIs in select, high growth therapeutic areas; b) strong R&D capabilities and process chemistry skills; c) industry leading, modern and regulatory compliant manufacturing capacities; d) long-standing relationships with marquee clients; e) consistent & robust growth across topline and bottomline; f) good OPM in API segment at above 20 percent as compared to peers and decent ROE of 15.6 percent for an API player, g) private equity backed Company which increases our confidence on R&D capabilities and process chemistry skills, we recommend high risk investors to “SUBSCRIBE” the issue. However, client concentration risk and high receivables days may cap listing gains.

Objects of the issue

- a) The issue is mainly to provide exit to its PE investors (offer for sale (OFS) for up to 24,107,440 shares by Private Equity shareholders).
- b) The proceeds from the fresh issue worth Rs. 300 would be used to prepayment of term loans.

Promoters' background

Among its Promoters, Dr. Satyanarayana Chava, Dr. Raju Srihari Kalidindi and Ravi Kumar V V have extensive experience in the pharmaceutical industry. The Company's shareholders include marquee investors such as Bluewater (belonging to the Warburg Pincus group), FIL Capital Management (part of Eight Roads Ventures, which was earlier known as Fidelity Growth Partners) and Aptuit (belonging to Welsh Carson Anderson & Stowe).

- c) **Amal Ganguli** is a Non-Executive, Chairman and Independent Director of the company. He has been a Director of the company since September 7, 2012. He has over 40 years of experience in the field of international tax and planning, cross border investments, corporate mergers and re-organizations, financial evaluation of projects, management, operational and statutory audit and consulting projects funded by international funding agencies.
- d) **Dr. Satyanarayana Chava is an Executive, wholetime Director and the Chief Executive Officer of the company.** He has been a Director of the company since January 21, 2006. He has been determined as inventor in 103 patents granted or patent applications filed across the world.
- e) **Dr. Raju Srihari Kalidindi** is an Executive, wholetime Director of the company since April 24, 2006. He has over 23 years of experience in research and pharmaceutical industry, including more than 10 years at Hospira Australia Pty Ltd in Australia. His areas of expertise include research and development, operations, sourcing and business development. Dr. Kalidindi has been determined as inventor in 11 patents granted or patent applications filed across the world.
- f) **Ravikumar V V** is an Executive, wholetime Director and Chief Financial Officer of the company. He has been a Director of the company since November 30, 2006 and is in-charge of finance, information systems and human resources function of the Company. He has over 25 years of experience in the field of Finance.
- g) **Chandrakanth Chereddi** is an Executive and wholetime Director of the company since August 9, 2016 and has been associated with the company since February 10, 2012 and is involved in strategy and operation of the company. He has over 8 years of experience in the field of Project Management.
- h) Among the Promoters, Dr. Satyanarayana Chava, Dr. Raju Srihari Kalidindi and Ravi Kumar V V have extensive experience in the pharmaceutical industry. Company's shareholders include marquee investors such as Bluewater (belonging to the Warburg Pincus group), FIL Capital Management (part of Eight Roads Ventures, which was earlier known as Fidelity Growth Partners) and Aptuit (belonging to Welsh Carson Anderson & Stowe).
- i) Dr. Satyanarayana Chava was featured on the cover page of the September 2015 publication of Forbes India and the company was recognized as one of the 13 hidden gems of India in that publication.
- j) The company has received several awards including the 'Health Care company of the Year' at the VC Circle Awards 2015, 'The Silver Certificate of Merit' at the Economic Times India Manufacturing Excellence Awards 2014 and 2013, and the Silver Certificate of Merit at the India Manufacturing Excellence Awards, 2015, and the 'Best company in Emerging Markets' by Scrip magazine in 2012. The Government of India also awarded the company the Vishwakarma Rashtriya Puraskar and National Safety Award in 2016 and 2014.

R&D center

The Company believes its "research-first" approach has been critical to its success and a differentiating factor from its competitors. It set-up its first dedicated R&D center in Hyderabad, Telangana in 2006. Initially they focused on research in the Oncology and ARV API areas and after making progress in R&D they commissioned their 1st API manufacturing facility in 2007. The kilo lab at their R&D center at Hyderabad has received approvals from the United States Food and Drug Administration ("US FDA"), Pharmaceuticals and Medical Devices Agency ("PMDA") of Japan and the Korea Food and Drug Administration ("KFDA"). They have also set up a R&D center in Greater Boston, United States in 2015.

As of September 30, 2016, Laurus Labs has employed 605 scientists at their R&D center in Hyderabad and 12 scientists at their R&D centre in Greater Boston, which constituted 24.4% of their total employee strength. The Company spent Rs.52.28



crores, Rs.90.65 crores, Rs.58.65 crores and Rs.42.40 crores towards their R&D activities during the six months ended September 30, 2016 and the financial years 2016, 2015 and 2014, or 5.6%, 5.1%, 4.3% and 3.6% of their total revenues in such periods, respectively. They are currently in the process of expanding their R&D center in Hyderabad and setting up another R&D center in Visakhapatnam. The Company believes that its systematic approach to selection of molecules, which involves evaluation of technical and commercial feasibility data, and customer feedback is evident from its high proportion of active Drug Master Files ("DMFs"), with the commercialization of 30 out of the 37 filed DMFs, as of September 30, 2016. As of September 30, 2016, the Company owned 34 patents and had 152 pending patent applications, in several countries.

Risk and Concerns

Client concentration risk

The Company is dependent on a limited number of customers for a significant portion of its revenues. For the six months ended September 30, 2016 and the financial years 2016, 2015 and 2014, the top five customers contributed `5,524.45 million, `12,142.83 million, `10,466.3 million and `8,940.65 million, or 58.7%, 67.8%, 76.9% and 76.5% of its total revenues, respectively.

Further, the Company currently does not have long term contractual arrangements with most of its significant customers and conduct business with them on the basis of purchase orders that are placed from time to time. These significant customers include Aspen Pharmacare Limited, Aurobindo Pharma Limited, Mylan Laboratories Limited, NATCO Pharma Limited and Strides Shasun Limited, who in the aggregate contributed 48.9%, 67.8%, 76.3% and 72.4% of its total revenues for the six months ended September 30, 2016 and the financial years 2016, 2015 and 2014, respectively.

High debtors' cycle

The Company's debtors cycle is over 6 months which makes it working capital intensive which management believes is the industry standard.



Disclaimer

Ajcon Global Services Ltd. is a fully integrated investment banking, merchant banking, corporate advisory, stock broking, commodity and currency broking. Ajcon Global Services Ltd. research analysts responsible for the preparation of the research report may interact with trading desk personnel, sales personnel and other parties for gathering, applying and interpreting information.

Ajcon Global Services Ltd. is a SEBI registered Research Analyst entity bearing registration Number INH000001170 under SEBI (Research Analysts) Regulations, 2014.

Individuals employed as research analyst by Ajcon Global Services Ltd. or their associates are not allowed to deal or trade in securities that the research analyst recommends within thirty days before and five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above paragraph, We and our affiliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage.

Ajcon Global Services Ltd. or its associates may have commercial transactions with the Company mentioned in the research report with respect to advisory services.

The information and opinions in this report have been prepared by Ajcon Global Services Ltd. and are subject to change without any notice. 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 of Ajcon Global Services Ltd. While we would endeavour to update the information herein on a reasonable basis, Ajcon Global Services Ltd. is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Ajcon Global Services Ltd. from doing so. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall 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. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Ajcon Global Services Ltd. will not treat recipients as customers by virtue of their receiving this report. 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. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Ajcon Global Services Ltd. accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Ajcon Global Services Ltd. or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

Ajcon Global Services Ltd. encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Ajcon Global Services Ltd. or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Ajcon Global Services Ltd. nor Research Analysts have any material conflict of interest at the time of publication of this report.



STOCK BROKING, INVESTMENT BANKING, CORPORATE ADVISORY & INSURANCE

It is confirmed that Akash Jain – MBA (Financial Markets) or any other Research Analysts of this report has not received any compensation from the company mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Ajcon Global Services Ltd. or its subsidiaries collectively or Directors including their relatives, Research Analysts, do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that Akash Jain – MBA (Financial Markets) research analyst or any other Research Analysts of Ajcon Global do not serve as an officer, director or employee of the companies mentioned in the report.

Ajcon Global Services Ltd. may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Neither the Research Analysts nor Ajcon Global Services Ltd. have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on Ajcon Global Services Ltd. by any Regulatory Authority impacting Equity Research Analysis activities.

Analyst Certification

I, Akash Jain MBA (Financial Markets), research analyst, author and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. I also certify that no part of compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view (s) in this report.



For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net, 022-67160431 (D)

CIN: L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

Website: www.ajcononline.com

Corporate and Broking Division

408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062

Registered Office:

101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40