



LAKHANI
FINANCIAL
SERVICES



LASA SUPERGENERICS LIMITED (LASA)

INITIATING COVERAGE

Rating: Buy | CMP: 65 | Target: 100

ANALYST

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CONTACT

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DESIGNED BY

Deepa Bhatia

DATE: 1 SEP, 2020



NSE Code: LASA

BSE Code: 540702

Face Value: 10

CMP: 65

Sector: Healthcare Services

Market Cap (INR): 271 Crs.

Nifty: 11,452

Sensex: 38,841

Lasa Supergenerics Limited (Lasa) is a vertically integrated Active Pharmaceutical Ingredient (API) manufacturer with a diversified presence across Veterinary API products, animal feed ingredients and reagents for therapeutic use and other API's.

The company specialises in '**catalyst chemistry**' and boasts of a **diverse mix of over 15 niche APIs** (veterinary & human) allowing it to cater effectively to the demand from existing and potential customers. Lasa's products are used widely as Anthelmintic or deworming agents and it has alliances with leading Indian and global animal healthcare conglomerates.

Lasa sells its products in India as well as International markets including China, Korea, Bangladesh, Pakistan, Australia, Turkey, Egypt, Jordan and other countries in the Middle East to over 300 customers. In FY20, 16% of Lasa's sales came from exports.

Specializes in "Catalyst Chemistry": Lasa's expertise in catalyst chemistry enables shorter cycle times, cost savings on raw materials, labour and power, increases productivity of manufacturing capacity, and reduces by-product and effluent discharge.

Major Products: Lasa's top products include Albendazole, Fenbendazole, Nitroxynil, Oxfendazole, Toldimphos Sodium, Halquinol (all veterinary APIs); Povidone-iodine (a broadspectrum antiseptic); and Progesterone (female sex hormone)

Patents: On the back of its strong R&D competence, most of the company's major products are patented. This is a source of competitive advantage as it helps in achieving better realisations thereby making the business model more robust. "Lasa currently owns 6 process patents for APIs"

Target to be Debt Free in FY21: The company reduced its outstanding debt significantly in FY20 from Rs 85 crs to Rs 48 crs. We believe driven by the strong improvement in company's profitability and cash flows in FY21E, the company is likely to be debt free by March 2021.

WHO-GMP certified manufacturing facilities: Lasa has WHO-GMP certified production facilities in Mahad (1 unit) and Khed (2 units) in Maharashtra with an installed capacity of 4,300 MT. These facilities are currently operating at 95% capacity utilisation.

Strong Backward integration to drive operating leverage - Lasa's multipurpose manufacturing facilities has significant backward integration linkages, provides the company with the ability to quickly switch between products without incurring major capex and generate a cost advantage.

Maharashtra FDA Approved manufacture of Progesterone to lead to new growth- Lasa recently received approval from the Maharashtra FDA to manufacture progesterone, a female sex hormone which will help the company to cater also to human pharma sector. This will add a huge impetus to the company topline and bottomline.

High margins in the Animal Pharma space - There is lower pricing control as most customers of animal healthcare products are farm and pet owners, making pricing controls less justified. This enables Lasa to always command higher margins in the animal healthcare space.

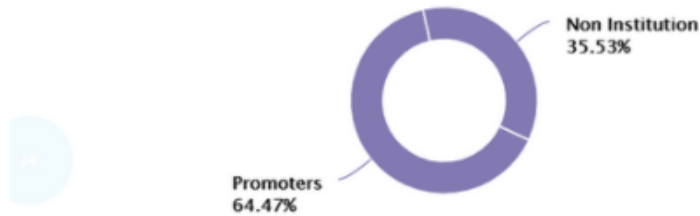
Lasa posted a Revenue of Rs. 54 Crs in Q1FY21, witnessing a strong growth of 40% from Rs. 39 Crs in Q1FY20, EBITDA grew by a whopping 141% to Rs. 12 Crs in Q1FY21 against Rs. 5 Crs in Q1FY20 and it clocked a net profit of Rs. 5 Crs in Q1FY21 from a loss of Rs. 1 Crs.

At the CMP of Rs. 63, the stock trades at 9.9x FY21E EPS of Rs. 6.4. We believe, this valuation is very reasonable keeping in mind a) Increase in awareness of zoonotic diseases and preventive measures, b) Heterogeneous customer base from various industry segments - Veterinary, Animal and Human Health Care and c) strong backward integration leading to higher margins. We believe this company will be able to grow at a 25% CAGR growth rate and enhance the margins also over the next 2 years. Hence, we have applied a PE multiple of 12x times on FY22E EPS to arrive at a target price of Rs. 100 per share.



Shareholding Snapshot : Jun 20

Shareholding Snapshot



- > Majority shareholders : Promoters
- > Pledged Promoter Holdings : None
- > Mutual Funds : Held in 0.00 Schemes (0.00%)
- > FIs : Held by 0 FIs (0%)
- > Promoter with highest holding : Omkar Pravin Herlekar (64.471%)

INR (Lacs)	Q1FY21	Q4FY20	Q1FY20	YoY (%)	FY20	FY19
Revenue	54	48	39	40%	167	169
EBITDA	12	9	5	141%	29	11
PAT	5	2	(1)	402%	3	(12)
EPS	1.3	0.9	(0.5)		1.3	(5.3)
Sh. Cap	40.7	40.7	22.9		40.7	22.9

Return Summary

Stock Return v/s Sensex

Stock v/s Nifty Midcap 100



1 YEAR RETURN

440.35%

OUTPERFORMED BY 435.69%

SENSEX 4.66%

OUTPERFORMED BY 391.96%

SECTOR 48.39%

Source: Market Mojo, Capital Line



Industry Overview

The veterinary pharmaceuticals and animal medicine market is segmented by the type of medicine into veterinary pharmaceuticals and feed additives. **The veterinary pharmaceuticals market is the largest segment of the animal medicine market, accounting for \$33.8 billion or 88.8% of the total in 2019 and this market is expected to be the fastest-growing segment going forward at a CAGR of 12.7%.**

The veterinary pharmaceuticals market is further segmented by type of pharmaceuticals into veterinary parasiticides, veterinary vaccines, veterinary antibiotics, and others - veterinary pharmaceuticals. **The veterinary parasiticides market is the largest segment of the veterinary pharmaceuticals market, accounting for \$9.9 billion or 29.4% of the total market in 2019. Also The veterinary vaccines segment is expected to be the fastest-growing segment going forward at a CAGR of 13.7%.**

Growth Drivers for the Animal Healthcare Industry -

- 1) Increasing uptake of Animal husbandry bodes well for the industry –** Agriculture is the mainstay of the economy even today where rural people majorly depend upon their cattle that provide milk, and meat for their livelihood. **But with many big companies entering the industry and utilizing strong technology, it has led to a lot of emphasis on controlling outbreaks of new and old animal diseases. As a result Animal healthcare industry will see an upswing.**
- 2) Increase in Pet adoption -** In the past few decades, there has been a **significant expansion in pet adoption, especially amongst the elderly population.** The increase in disposable income and increasing acceptability of animals as social companions has led to increase in pet ownership. Amongst some lonely elderly people, certain animal categories like dogs and parrots are seen as an alternative to human children, given their ability to respond to human emotions and signals. **The growing number of pets will also boost the overall demand from the animal healthcare industry.**
- 3) Gradual shift of Veterinary API from China to India -** Many developed countries pharmaceutical companies rely on China for active pharmaceutical ingredients (APIs). **In the given circumstances, this is expected to shift from China to other manufacturing bases including India and local manufacturing in Europe and USA.**



Company Profile

Lasa is a vertically integrated group spanning the **entire veterinary, animal and human healthcare** value chain from discovery to delivery and has established itself as a **dominant player in research, manufacturing and global marketing.**

The company **is managed by a dynamic management team and consortium of technocrats with well diversified experience spanning several decades.**

Lasa has a diverse mix of various **niche Anthelmintic/API's** (Veterinary, Animal and Human) that meet the demands of potential new and existing customers. **The Company has a global footprint across 27 developed countries. The company primarily manufactures Veterinary APIs and has a diverse mix of over 15 niche APIs (Veterinary and Human).**

The company has two vertically integrated manufacturing facilities located at Mahad and Chiplun. These manufacturing facilities are WHO-GMP compliant and certified by EQDM. These facilities are multipurpose, with backward integration linkages which give the flexibility to change the product mix and cater to the growing market without incurring significant capex.

Multi Product Capability	Research & Development	Global Customer Base
<p>Diverse mix of niche API's in Veterinary, Animal & Humans.</p> <p>Vertically integrated manufacturing facilities</p>	<p>Focussed R&D program to build pipeline for consistent growth</p> <p>Veterinary R&D reasonably predictable and cost effective as most animal health products originate from human health or crop health products</p>	<p>Heterogeneous customer base from various industry segments - Veterinary, Animal and Human Health Care.</p> <p>Export presence in Australia, Brazil, Canada, China, Egypt, Europe, Germany, Hungary, among others.</p>



Financial Performance at at Glance

Particulars (Rs.in Crs)	FY17	FY18	FY19	FY20	CAGR(%)	FY21E	FY22E
Balance sheet							
Equity Capital	0.05	23	23	41		40.7	40.7
Networth	75	117	105	141		168	202
Debt	104	90	69	34		34	34
Book Value	NA	51	46	35		41	50
Financial Parameters							
Revenue	218	246	170	167	(8.48%)	209	261
EBIDTA	19	41	11	30	15.71%	40	52
PAT	2	12	(12)	4	15.33%	26	34
EPS	1.15	5.43	(5.27)	1.26		6.43	8.35
Operating Ratios							
EBIDTA Margin	8.9%	16.8%	6.6%	17.9%		19.0%	20.0%
PAT Margin	1.1%	5.0%	(7.1%)	2.2%		12.5%	13.0%
ROE	3.1%	10.5%	(11.4%)	2.6%		15.6%	16.9%
D/E	1.4	0.8	0.7	0.2		0.2	5.9

1) Lasa posted a flat revenue of Rs.167 Crs in FY20 (FY19 – Rs. 170 Crs), EBITDA grew by a whopping 169% to Rs. 30 Crs in FY20 (FY19 – Rs. 11 Crs) and it clocked a very strong net profit of ~Rs.4 Crs in FY20 (FY19 – Loss Rs.12 Crs).

2) The Company's Revenue degrew from FY17-20 due to one bad year in FY18-19. However, due to the strong operating leverage and backward integration the impact was not felt a lot on the bottomline. EBITDA grew at a CAGR of 15.7% in the same period from Rs. 19 Crs in FY17 to Rs.30 Crs in FY20 and PAT grew at a CAGR of 15% from Rs. 2 Crs in FY17 to Rs. 4 Crs in FY20.

3) The company has been able to grow its margins very strongly by ~900bps from 8.9% in FY17 to 17.9% in FY20. This is majorly on account of very strong backward integration which its plants have and this saves a lot of cost for the company, Hence transpiring into very good margins.

4) The company has a very strong Balance sheet. The debt to equity ratio of the company has been constantly dropping and now stands at a mere 0.2 which is because the management has taken prudent decisions in paying off a lot of debt in the last 2-3 years which also shows positively on the net profit.

5) We believe the company to have a robust growth over the next 2 years growing the revenues at a CAGR of ~25% from FY20-FY22. FY22 from Rs. 167 Crs in FY20 to Rs. 261 Crs in FY22. We believe, the company's EBIDTA margins will increase by ~2-3% over the next 2 years to ~20% in FY22 on the back of operating leverage and PAT margins will increase by ~9-11% as interest expense is also seen subsiding to a very large extent.



Risks

The veterinary API manufacturing of the Company includes domestic and international business exposures. If governmental regulations affecting the business change, Lasa may need to incur additional cost to comply with the required regulatory changes.

If the company is unable to comply with the conditions of its licenses and approvals, its licenses may be cancelled resulting in an adverse effect on business.

Lasa operates in a market that is dominated by big pharmaceutical companies which have stronger financial capacity, bargaining power and distribution reach. So there is always a pricing pressure which might arise in the future.



Valuations and Recommendations

Lasa Supergenerics Limited (Lasa) is a vertically integrated Active Pharmaceutical Ingredient (API) manufacturer with a diversified presence across **Veterinary API products, animal feed ingredients and reagents for therapeutic use and other API's.**

Lasa's presence across animal and human API markets make this company a diversified API player, however its focus on veterinary market and animal healthcare market makes it a niche player differentiating it from the major healthcare and pharma companies.

The Company recorded EBITDA growth of 169% to Rs. 30 Crs from Rs. 11 Crs in FY19 and the company came back strongly into profits in FY20 of Rs.4 Crs from a loss of Rs. 12 Crs in FY19. The company's efforts to improve its product portfolio under different business have resulted in the company to be generating robust free cash flows over the last 2-3 years.

We believe the market for animal and veterinarian API's is going to increase given the focus on controlling and preventing future zoonotic diseases like the SARS-COV19 virus. The mounting demand of high- quality meat and milk, rampant disease outbreaks and growing affinity and concern for companion animals have provided a big boost to the veterinary industry across the globe.

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We believe, the company, with such a niche focus and positive growth aspects of the Animal, Veterinarian and Human API business is a very good play for investors with along term investment horizon. The company's valuation, being very reasonable, is offering a good opportunity in the current scenario and we believe it is the right time to accumulate this stock.



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