

MONEY TIMES

(PUBLISHED ON MONDAY, 01/01/2018)

Lasa Supergenerics Ltd: For superb gains

Money Times

1 Jan 2018

(BSE Code: 540702) (CMP: Rs.179.70) (FV: Rs.10)

Lasa Supergenerics Ltd (Lasa) was demerged from Omkar Speciality Chemicals in June 2017 and got listed on the bourses in September 2017. Lasa is a vertically integrated group spanning the entire veterinary, animal and human healthcare value chain — from discovery-to-delivery with established credentials in research, manufacturing and global marketing. The Lasa group is a veterinary API manufacturing entity. Its manufacturing base is located at Mahad in Maharashtra. It specialises in catalyst chemistry and manufactures anthelmintic/ veterinary API products with the largest production capabilities and product categories in India. To efficiently control the supply chain, the group backward integrated its key molecules from discovery research up to full-scale bulk production. Lasa has alliances with leading domestic and global animal health care conglomerates. From being a single product company, Lasa today manufactures 15 different products in the veterinary API segment and continues to add new products to its portfolio. It manufactures benzimidazole, amides, imidazothiazoles, piperazine, albendazole, fenbendazole, ricobendazole, oxfendazole, galphenol, etc.

Since raw material price fluctuations result in margin fluctuations and dependence on suppliers adds more pressure, Lasa moved into backward integration for most of its products, which will be fully operational in

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H2FY18. It expects around 10-12 of its products to account for ~75% of total sales going forward. Exports account for 40% of total sales. No customer accounts for more than 5% of total sales. Its process patents pipeline is strong. It has its own R&D unit.

For FY17, Lasa incurred a loss of Rs.0.63 crore on sales of Rs.199.93 crore. During H1FY18, it posted PAT of Rs.15.7 crore on sales of Rs.123.2 crore fetching an EPS of Rs.6.9. During Q2FY18, it posted 23% higher PAT of Rs.8.7 crore on 6% higher sales of Rs.65.88 crore fetching an EPS of Rs.3.8. It added ~Rs.20 crore of assets and claimed accelerated depreciation of the newly added capacity, which resulted in higher depreciation of Rs.6.1 crore in Q2FY18 v/s Rs.2.4 crore in Q1FY18. PAT during the quarter could have been higher but for the higher prices of its main raw materials, which are organic derivatives from petrochemicals and crude-based derivatives. But this is a temporary issue according to the management and it expects OPM to come back to ~22-24% in the coming quarters. Total debt was ~Rs.68 crore. Lasa plans to reduce interest cost and repay debts in the next 18 months from internal accruals. It expects 25% CAGR growth in net sales in the next 3 years. The value of its gross block is Rs.179 crore and net DER is 0.5:1.

With an equity capital of Rs.22.9 crore and reserves of Rs.94.9 crore, Lasa's share book value works out to Rs.51 as at H1FY18. The promoters hold 41.2% of the equity capital, FIs hold 4.1%, DIs hold 0.2% and PCBs hold 4.5%, which leaves 50% stake with the investing public.

Lasa has a strong pipeline of process patents for which it has filed applications. It is focused on developing catalyst based processes, which will enable it to create entry barriers and help maintain its competitive edge. Lasa commands a decent market share of 35% in the API veterinary segment. Going forward, it plans to develop and add new products to its portfolio and also focus on backward integration simultaneously. All these strategies will enable it to earn a decent margin across the product basket.

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Lasa's marketing footprint is entrenched across developing markets in multiple countries and it expects to augment its export footprint significantly. It aims to be a leading force in the niche animal health care solutions segment.

The biggest risk for any chemical/ pharma company is the dynamism of the regulatory norms, which keep on changing. Lasa is committed towards adopting environment friendly and sustainable process technologies so that it can control the discharges from its units.

Based on its initiatives, Lasa may post an EPS of Rs.18 in FY18 and Rs.24 in FY19. At the CMP of Rs.179.70, the stock trades at a forward P/E of 9.9x on FY18E and 7.4x on FY19E earnings. A reasonable P/E of 12.5x will take its share price to Rs.225 in the medium-term and Rs.300 thereafter.