Laurus Labs Limited

CDMO and Non-ARV to steer growth

31st Mar 2023

Laurus Labs Limited (Laurus), an Indian pharmaceutical company, was incorporated in 2005 by Dr. Satyanarayana Chava as an Anti-Retroviral (ARV) Active Pharmaceutical Ingredient (API) company. Laurus diversified its operations by entering into formulations and Contract Development and Manufacturing Organization (CDMO) services to become an integrated pharmaceutical company. Currently, the Company's business operations are diversified into Generics API, Formulations, CDMO Services, and Biotechnology. The Company markets its products globally in over 60 countries, with exports contributing ~72% of the overall revenue. The Company's ARV segment faced pricing pressure during 9M FY23, impacting the overall margins due to high product concentration. However, Laurus is gearing up its capacity expansion in non-ARV and CDMO segments, which will help to reduce product concentration risk and tap patent expiry opportunities. Thus, looking beyond near-term headwinds, we initiate coverage on Laurus Labs Ltd with a BUY rating and a target price of Rs. 396.

Significant growth opportunities in the CDMO segment

The CDMO segment contributes 42% to total revenue in 9M FY23, a jump from 19% in FY22. The segment saw a sharp jump in the number of projects in 9M FY23, which is expected to increase further on the back of expansion plans in the pipeline. The Company intends to invest Rs. 10 Bn between FY23-24 to establish a total of five manufacturing facilities and an R&D center for the segment by FY25E on the back of a positive demand scenario. We expect the CDMO segment to grow faster than the overall business.

Growth levers in the Generic API segment

The generic API segment contributes ~41% to the overall revenue as of 9M FY23. The Company plans to infuse Rs. 6-7 Bn between FY23-24 in the non-ARV API segment. High growth due to improved industry demand, improved pricing scenarios, strategic capacity expansion, and upcoming patent expiry are expected to drive growth in the segment.

Capacity expansion in the formulations to sustain future growth

Laurus aims to increase contribution from non-ARV formulations and expects a significant contribution from the US and Europe. The Company has filed 36 Abbreviated New Drug Applications (ANDAs) with the US Food & Drug Administration (USFDA) and 8 product dossiers in developed markets, intending to create a niche product pipeline and tap ~$45 Bn opportunity. The Company recently doubled its commercial capacity from 5 Bn units in FY21 to 10 Bn units in FY23 and further plans to infuse Rs. 3-4 Bn between FY23-24 in the non-ARV formulation segment.

View & Valuation

We initiate coverage on Laurus Labs Ltd with a BUY rating and a target price of Rs. 396 (12.2x FY24E EV/EBITDA multiple). Looking beyond near-term headwinds, Laurus is gearing up with aggressive capacity expansion in non-ARV and CDMO segments, which will help to reduce product concentration risk and tap patent expiry opportunities. In addition to this, the Company is expanding its reach in developed markets through niche product pipelines.

BUY

CMP Rs. 293

TARGET Rs. 396 (+35%)

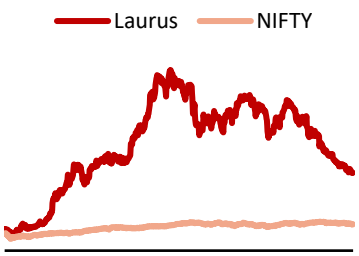
Company Data

MCAP (Rs. Mn)	1,57,419
O/S Shares (Mn)	539
52w High/Low	626 / 286
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	422

Shareholding Pattern %

	Dec 22	Sept 22	Jun 22
Promoters	27.20	27.27	27.27
FIIs	21.90	22.67	21.98
DIIs	9.51	9.34	9.11
Non-Institutional	41.38	40.74	41.65

Laurus Labs vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs. Mn)	FY22	FY23E	FY24E
Revenue	49.4	59.8	66.9
EBITDA	14.2	16.6	19.1
Net Profit	8.4	8.9	10.0
Total Assets	69.7	84.3	91.9
ROCE (%)	22%	18%	18%
ROE (%)	28%	24%	22%

Source: Company, Keynote Capitals Ltd.

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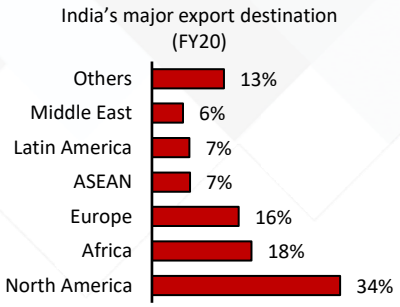
Pharmaceutical Industry

As of 2021, the global pharmaceutical industry was valued at ~$1.4 Trn, with North America and Europe accounting for a significant global market share. The Asia Pacific region is growing rapidly, driven by an increasing population, rising incomes, and expanding healthcare infrastructure.

The pharmaceutical industry is a highly regulated and competitive industry with a large number of players. Based on revenue, the Big pharma (global top 10 companies) include Pfizer, AbbVie, Johnson & Johnson, Novartis, Roche, Merck & Co., Bristol-Myers Squibb, Sanofi, AstraZeneca, and GlaxoSmithKline.

The Indian pharmaceutical industry is estimated to be valued at ~$49 Bn, including the export market at ~$23.3 Bn in FY22. India ranks 3rd worldwide for pharmaceutical production by volume and 14th by value. India's pharmaceutical industry is an established domestic industry with a strong network of 3,000 drug companies and ~10,500 manufacturing units.

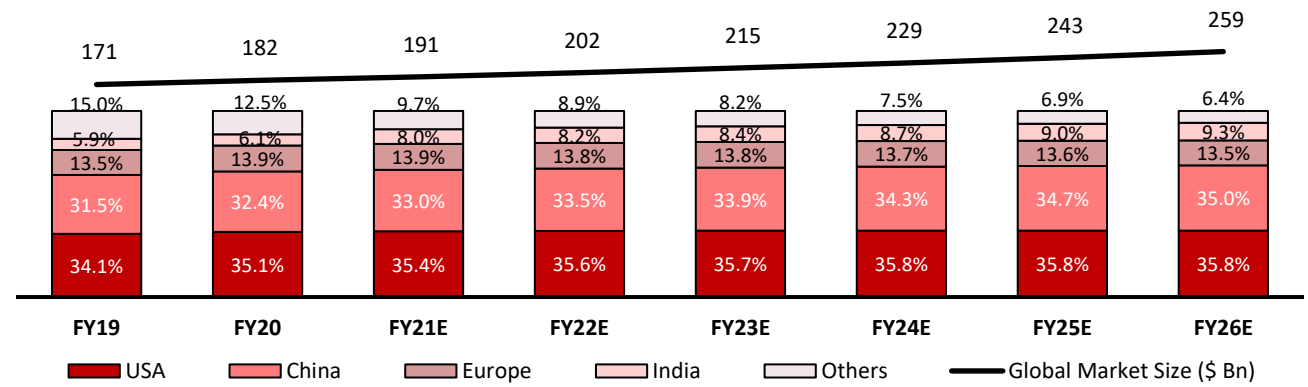


Source: IBEF, Keynote Capitals Ltd.

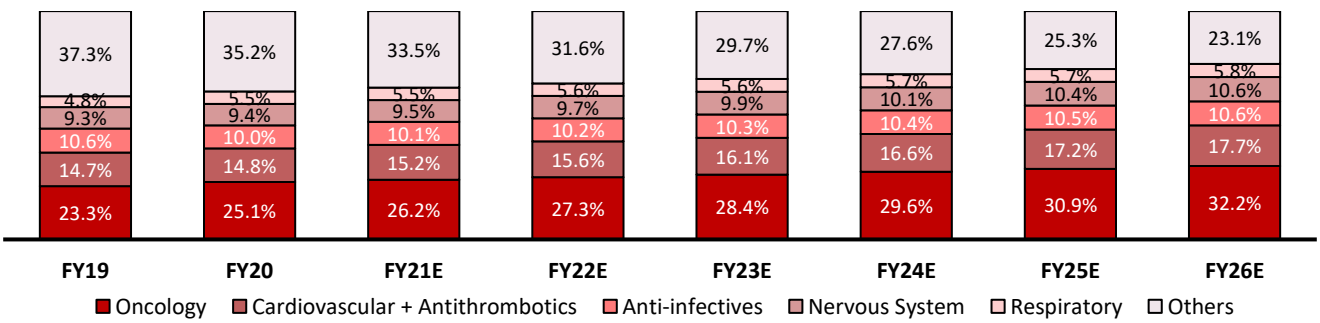
Generic API industry

The global API market is estimated to be valued at ~$202 Bn in FY22 and is expected to grow at a CAGR of ~6.3% till FY26E. The API industry has progressed from manufacturing simple molecules to high-value and complex APIs. Key trends in the global generics API industry are the rising aging population, rising severance of chronic diseases, increasing R&D complications, and increasing regulatory approvals due to intense competition**.** The USA is the highest revenue contributor (36% market share), followed by China (34% market share). In the upcoming years, India (8% market share) is expected to witness a growth of ~10% and an increase in market share in the global API industry.

Global API industry break up by region (%)



Global API industry break up by therapeutic area (%)



Source: Glenmark Life Science RHP, IQVIA, Keynote Capitals Ltd.

Oncology

Oncology therapy is related to cancer diagnosis and treatment, it is the highest contributor to the global API industry. According to IQVIA, the global oncology API market size was ~$55 Bn in FY22 and is expected to grow at a CAGR of ~10.8% from FY22-26. The oncology segment has one of the highest opportunities worth ~$34 Bn in the upcoming patent expiry between 2020-2026. The increasing prevalence of cancer, rising demand for personalized medicine, and advancements in technology are some of the key factors driving the growth of this market.

Anti-Retroviral (ARV)

Anti-Retroviral Therapy (ART) treats Human Immunodeficiency Virus (HIV) infection. The global HIV drugs market was estimated to be ~$33 Bn in 2022 and is expected to reach ~$40 Bn in 2026 at a CAGR of ~5%. According to the Joint United Nations Program on HIV/AIDS (UNAIDS), 38.4 Mn people had HIV worldwide, of which 2/3rd people lived in Low and Middle-Income Countries (LMICs) in sub-Saharan Africa in 2021.

ART costs in LMICs vary depending on the country and medication used. The World Health Organization (WHO) recommends a standard regimen for first-line ARV therapy ranging from $75-100 per person per annum for generic drugs. Despite this, access to ART in LMICs is still limited due to inadequate healthcare infrastructure and social and cultural barriers to treatment. The efforts to increase access to ART in LMICs are being made by improving healthcare infrastructure, strengthening supply chains for ARV drugs, and increasing funding for HIV programs from domestic and international sources.

The WHO updated its guidelines for ART in 2019, recommending Dolutegravir (DTG) as the preferred first-line treatment for HIV, replacing Efavirenz (EFV) for all adults living with HIV. The guidelines also recommend that DTG-based regimens be used as an alternative first-line option for children under 10 years of age and as a preferred second-line option for those who have experienced treatment failure on a non-DTG regimen. This is due to DTG's superior efficacy in suppressing viral load, improving immune function, and having a better side effect profile.

According to the WHO, over 160 countries have approved the use of DTG-based regimens as a preferred first-line treatment, while fewer than 20 countries still use EFV-based regimens as of 2021.

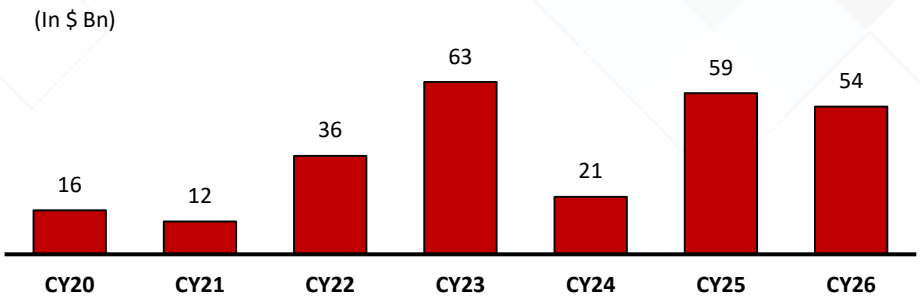
Federal government agencies and associations worldwide have introduced many initiatives and awareness campaigns to address HIV prevention and treatment. Organizations like Global Fund provides funding to the U.S. President's Emergency Plan for AIDS Relief (PEPFAR), the largest global health program set up by the U.S. government to combat HIV.

Production Linked Incentive (PLI) Scheme

India lags behind China within the APIs and bulk drug manufacturing segment. India relies heavily on China for fermentation-based APIs, feedstock, and many Key Starting Materials (KSMs). China is also a single supplier of critical intermediaries and APIs for treating cardiovascular diseases, diabetes, and tuberculosis. To reduce dependence on China, the government started the PLI scheme to encourage domestic production to reduce reliance on imports.

In March 2020, the Indian government came up with the PLI Scheme that allocated Rs. 30 Bn for developing three bulk drug parks and Rs. 69.4 Bn for API bulk drugs manufacturing 41 crucial APIs to reduce the high dependence of India on China. Key players in the Indian API manufacturing industry include Laurus Labs, Divis Laboratories, Dishman Carbogen Amcis, Solara Active Pharma, Granules India, Aarti Drugs, and Shilpa Medicare, among others.

About 120 drugs are expected to go off-patent, generating a worldwide opportunity worth $252 Bn between 2020-2026



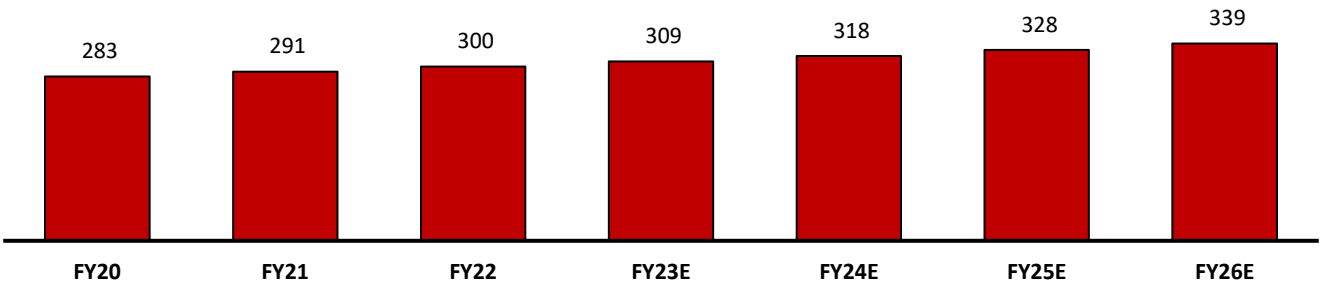
Note: The bar graph represents the revenue opportunities in the fiscal year
Source: FICCI Indian Pharma Report, Keynote Capitals Ltd.

The major contributors to therapeutic treatments, like Oncology, Cardiovascular diseases, Diabetes, Neurology treatments, and infectious diseases (HIV, Hepatitis), have the highest opportunities in the upcoming patent expiry.

Generic Formulations industry

According to the IQVIA Report, the global generics formulation industry was worth ~$300 Bn in FY22, constituting ~21.4% of the global pharmaceutical market. The generic formulation industry is estimated to grow at a CAGR of ~3% to reach $339 Bn by FY26E. North America was the largest generic formulation market, followed by Europe. Both markets are expected to grow at a lower single-digit CAGR from FY23-26E. India and ROW were expected to grow at more than ~8%, driven by volume demand.

Global generic formulations market ($ Bn)



Source: Glenmark Life Science RHP, IQVIA, Keynote Capitals Ltd.

Indian manufacturers accounted for ~33% of the market share by volume, increasing their share by 10% in the generics market in the USA from 2017 to 2019. This was primarily driven by quality manufacturing and competitive pricing. The average price of molecules such as Amlodipine, Glimepiride, and Metformin from Indian manufacturers was 40-50% lower than in other countries in 2019. This was driven by the low cost of production, which is 30-40% lower than in the US, attributable to competitive land rates, skilled labor, and low water and electricity costs.

Major factors driving the growth of the formulation industry are the launch of novel therapies, expansion of existing therapies, and growing demand for generic medicines, biologics, and personalized medicines. This has accelerated the demand for effective treatments and drugs.

Contract Research and Manufacturing Services (CRAMS)

The global pharmaceutical R&D market is the primary target market for CRAMS players. The global CRAMS market was worth ~$140 Bn in 2020. This market is expected to grow at a CAGR of ~8% to reach $218 Bn in 2026. North America (46%), China (7%) & UK (6%) account for a giant share of global R&D expenditure in 2020. According to IBEF, the Indian CRAMS industry is expected to reach $20 Bn by 2024, growing at a CAGR of 12%, driven by increasing technological advances and the availability of a large pool of skilled workforce.

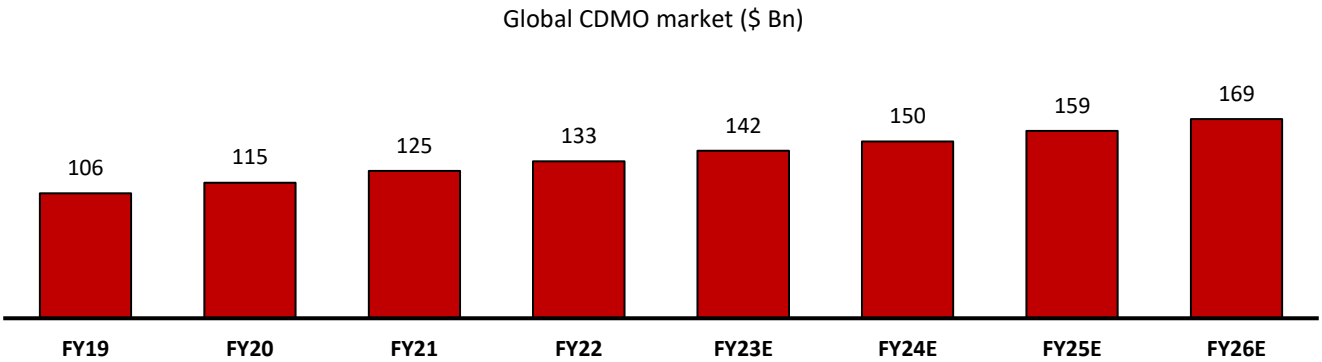
A drug development life cycle generally takes 10-12 years; the innovators opt for outsourcing to reduce the time taken and cost of capex and divert it to the R&D of the drug and its launch. Traditionally, CMOs have thrived on economies of scale. However, large pharma companies are turning to strategic partners for CDMO services and focus on R&D. According to Evaluate Pharma report, global R&D spending has been ~20% of global prescription sales in the last decade. It is expected to stay in the same range or increase going forward in the future.

CRAMS is the combination of CRO and CDMO Services

CRO Services	CDMO Services	
Discovery (4.5 Years)	**Development (7.5 Years)**	**Commercialization (1.5 Years)**
Target Identification and Validation	Pre-Clinical and Clinical trials	Regulatory filings
Lead Generation	Animal Safety	Product Launch
Lead Optimization	Phase I, II, III trials	Manufacture
Lead Selection	API and Drug Product Development	Marketing / Phase IV

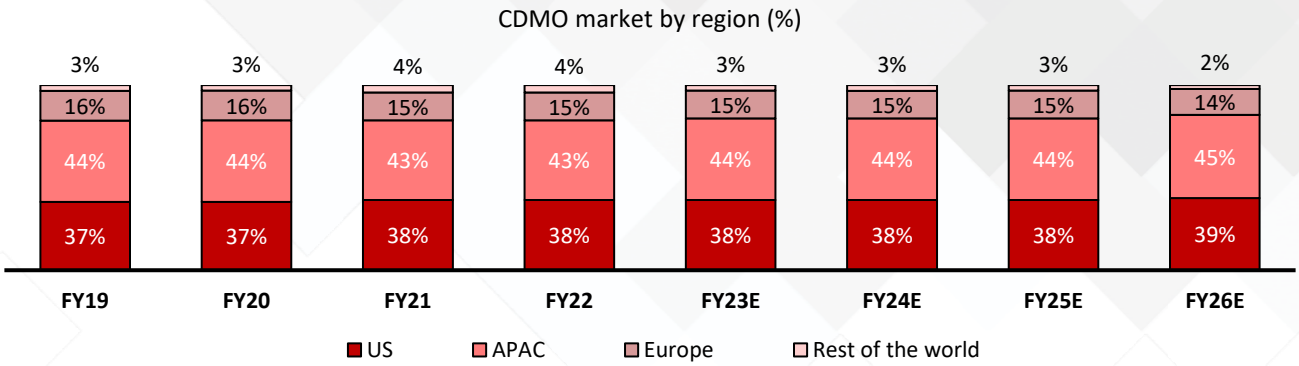
Source: Glenmark Life Science RHP, IQVIA, Keynote Capitals Ltd.

Global CDMO Market



Source: Glenmark Life Science RHP, IQVIA, Keynote Capitals Ltd.

The global CDMO market was estimated to be ~$133 Bn in FY22. The global industry growth rate was ~7.9% from FY19-22 and is expected to grow at a CAGR of 6.2% from FY22 to FY26E to reach $169 Bn in FY26E.



Source: Glenmark Life Science RHP, IQVIA, Keynote Capitals Ltd.

In the CDMO industry, the revenue in the APAC region (which includes India and China) is expected to grow at a CAGR of ~8.5% from 2021-26. Being the biggest pharmaceutical market worldwide, the United States holds the second highest potential for revenue growth and is expected to grow at a CAGR of ~7.7% from 2021-26, mainly from new drug development. The Europe and RoW countries are expected to grow at a CAGR of ~5% during the same period.

Key growth drivers for India

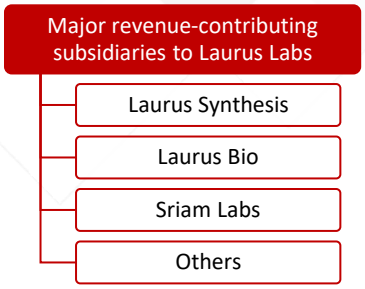
India is emerging as a major destination for pharmaceutical R&D outsourcing, driven by strong chemistry capabilities, skilled human resources, cost value proposition, low R&D cost, and a large patient population providing a diverse pool for clinical trials for New Chemical Entities (NCE). India has the highest number of FDA-approved plants (28% of the total approved plants worldwide) and a pool of technologically sound professionals at half the cost of the US and Europe.

Company Background

Laurus Labs Limited (Laurus), an Indian pharmaceutical and biotechnology company, was incorporated in 2005 by Dr. Satyanarayana Chava as an ARV API manufacturing company. Later Laurus diversified its business operations by entering into CDMO services and formulations to become an integrated pharmaceutical company. The Company's business operations can be divided into Generics API, Generics Formulations (Finished Dosage Forms-FDFs), CDMO Services, and Biotechnology.

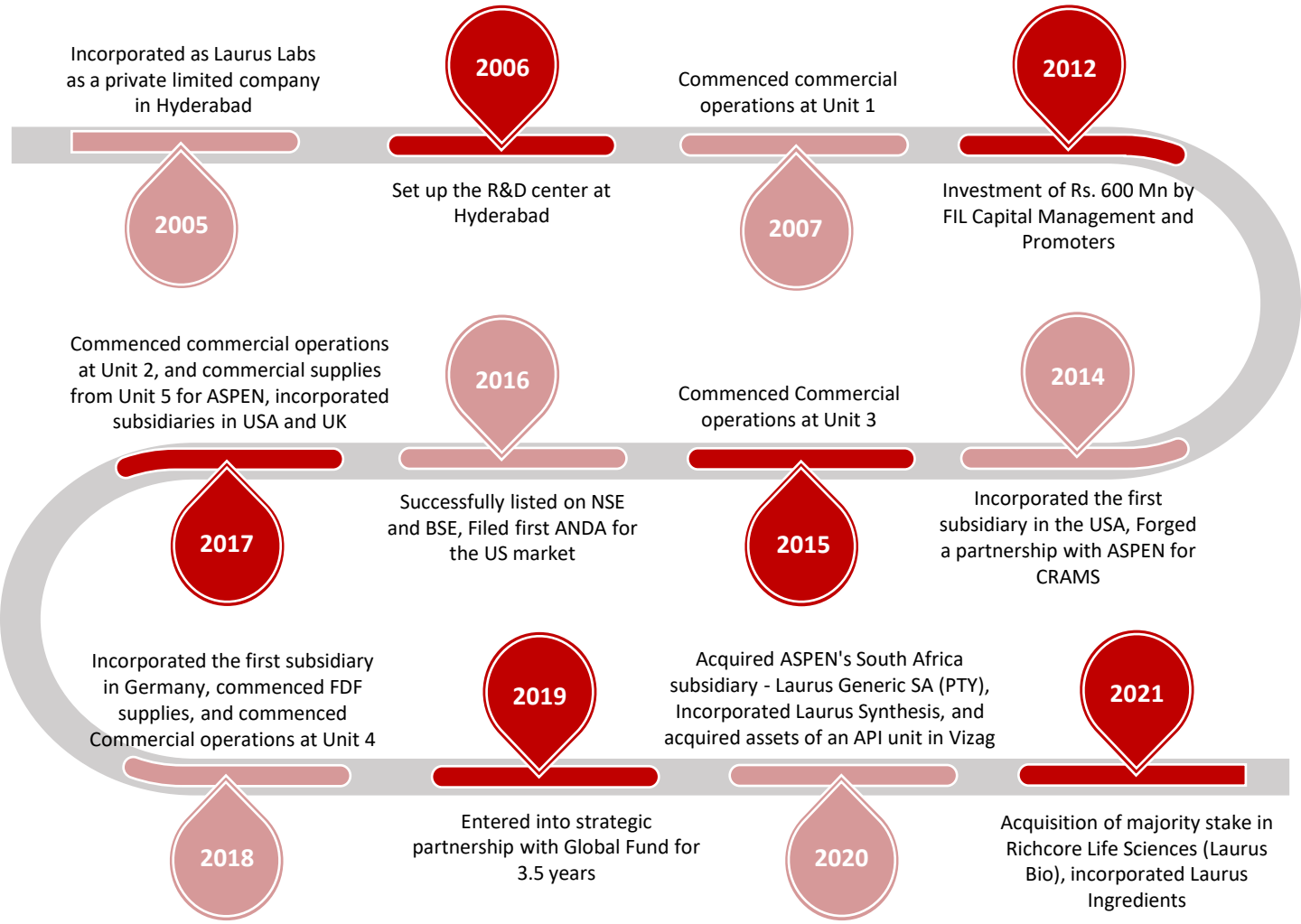
The Company is a fully integrated player, a market leader in the production of high-quality APIs in therapeutic areas like ARV, a top choice for New Chemical Entity (NCE) development and manufacturing, and a reliable supplier of specialty ingredients for nutraceuticals. The Company markets its products globally in over 60 countries, with exports contributing ~72% of the overall revenue.

The Company has eight manufacturing plants in Visakhapatnam, Hyderabad, and Bangalore. The Company offers contract, clinical, and analytical research services through its R&D centers in Hyderabad, Visakhapatnam, and the United States. The Company has ten subsidiaries/associates, including wholly owned subsidiaries, subsidiaries, step-down subsidiaries, and associates.



Note: As of FY22, standalone contributes ~95% of the revenue
Source: Company, Keynote Capitals Ltd.

Milestones in the journey of Laurus Labs Ltd



Source: Company, Keynote Capitals Ltd.

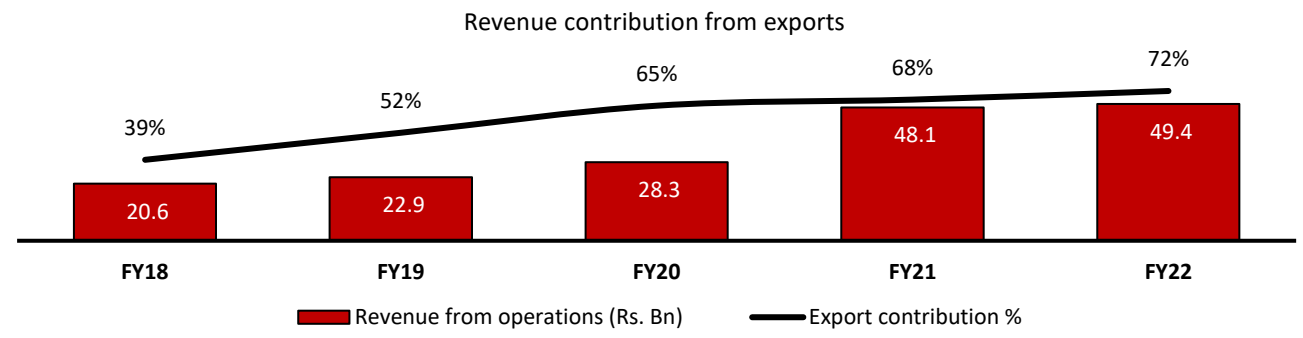
Evolution of the business operations of Laurus Labs Ltd

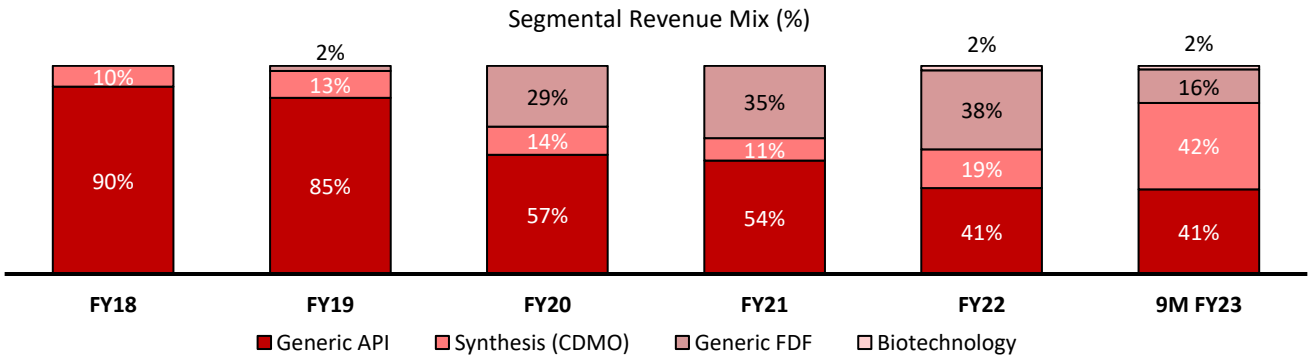
Capabilities	2006-11	2011-16	2016-22
Description of the Company	**ARV API Company**	**API Company**	**Pharmaceutical Company**
Team Strength	883	2,266	5,700
Manufacturing Units	1	2	8
Reactor volume (KL)	220	1,870	5,847
Formulations (Bn units)	0	2	6
DMFs	12	28	73
ANDAs			31
- Para IV filings			14
- First to file			10
Patents – filed	48	218	315
Patents – granted	0	25	184

Source: Company, Keynote Capitals Ltd.

Company segments

Laurus's business operations can be divided broadly into Generic API, Generic Formulations, CDMO Services, and Biotechnology. The Generic API business develops and manufactures APIs and advanced intermediates. The Formulations business develops and manufactures solid oral formulations. The Synthesis business provides CDMO services for global pharmaceutical companies. The Company's biotechnology segment offers in-depth fermentation-based product development and manufacturing expertise to novel protein companies and bio manufacturers. Laurus has evolved from a domestic company to an export-oriented company. The export contribution to the revenue has increased over the years from 39% in FY18 to 72% in FY22.

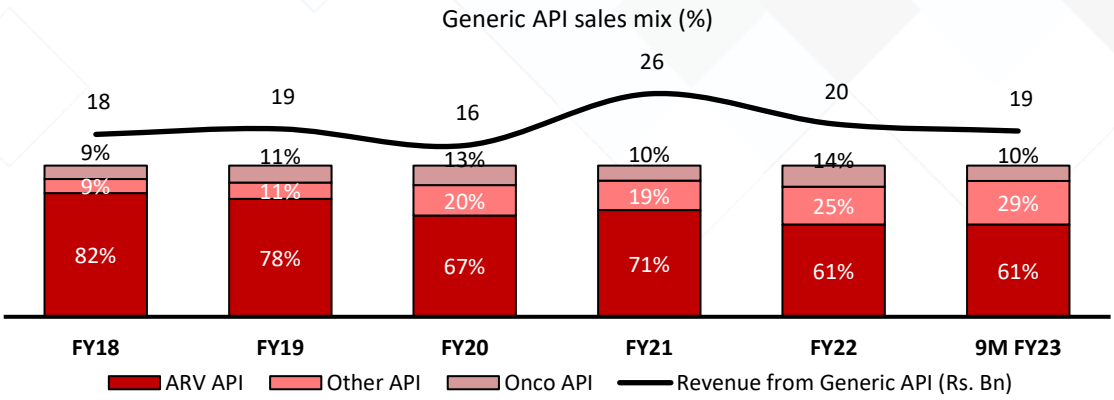




Source: Company, Keynote Capitals Ltd.

Generics API segment (41% revenue contribution as of 9M FY23)

Laurus commenced its operations as an ARV API manufacturer and later diversified into manufacturing several non-ARV APIs. The Company is a fully integrated pharmaceutical with a leadership position in generic APIs with a major focus on ARV, oncology, cardiovascular, gastro (proton pump inhibitors), and Hepatitis-C therapeutics.



5Yr Revenue CAGR (FY17-FY22)
ARV API: (3%)
Other API: 27%
Onco API: 20%

Source: Company, Keynote Capitals Ltd.

The Company, initially in 2005, improved the production process for Efavirenz (EFV), an ARV medication used to treat HIV, leveraging chemistry expertise. Laurus successfully produced EFV using cheap, stable ingredients (as the original catches fire in contact with water) that are easily available. This reduced the production costs by multi-folds. The Company's strategic investments in R&D and manufacturing infrastructure have enabled it to become one of the leading suppliers of ARV APIs catering to organizations in 'donor-funded access-to-medicines markets' of Sub-Saharan Africa, South-East Asia, and Latin America.

ARV sales saw a jump in FY21 as Laurus obtained approvals for DTG-based APIs to serve more customers. Laurus is the global leader in EFV API but diversified to DTG-based APIs, which include Tenofovir, Lamivudine, and Dolutegravir. However, in the future, the absolute contribution from the ARV segment is expected to contribute Rs. 25-30 Bn as it has reached its peak.

Laurus works closely with leading innovators and global health organizations to meet cost-reduction targets without compromising quality. Laurus entered into a strategic partnership agreement with Global Fund for 3.5 years, through which Laurus will have the volume commitments from them to treat HIV/AIDS. The Company also entered into an agreement with Unitaid and the Clinton Health Access Initiative (CHAI) to accelerate the development, commercialization, and registration of Darunavir (DRV/r), a second and third-line HIV treatment for children. Through this agreement, the organizations are working on a generic pediatric version of high-quality treatment for Children Living with HIV/AIDS.

Laurus aims to maintain its leadership position in the ARV API segment and increase developed market supplies. The contribution from ARV APIs is the highest; however, it has gradually declined due to market saturation. The absolute contribution from the ARV segment has remained stagnant, while Other APIs' contribution has increased over the years. Oncology is one of the core competencies and offers a comprehensive range of APIs accounting for ~10% of API sales as of 9M FY23. The Company is optimistic about the growth in the Oncology API business in the future.

The Company's strategy is to develop a few DMFs and attain cost and volume leadership. Other APIs accounted for ~29% of API sales in 9M FY23, the contribution of which is expected to increase further in the future, backed by demand-based capacity expansion. Laurus filed 4 DMFs in 9M FY23 in the non-ARV segment, taking the overall count of DMFs to 77, and future filings are expected to continue mainly in the Other APIs segment. The Company focuses on expanding high-volume growth segments. It has a developed portfolio, including offerings in diabetes, hypertension, cardiovascular, central nervous system, and gastro, which are expected to drive growth in the API segment.

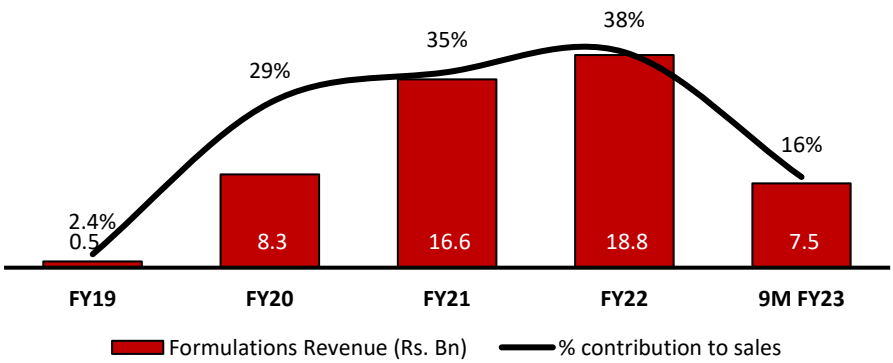
Laurus has one of India's largest high-potent API capacities and is expanding to meet high demand. The API manufacturing capacity is expected to increase by 20% YoY in FY23.

Generics FDF segment (16% revenue contribution as of 9M FY23)

Laurus entered the FDF segment in FY18 with an aim to become a leading player in offering integrated solutions to the global market. Laurus forward integrated to manufacture formulations on the back of its ability to manufacture APIs. The Company's state-of-art solid oral finished dosage facility in Visakhapatnam has a commercial capacity of 10 Bn units, conforms to international regulatory standards, and has dedicated formulation research labs, laboratory-scale clinical supply facilities, and analytical research labs capable of developing different types of dosage forms.

Laurus plans to further diversify into non-ARV formulations and expects the US and Europe to contribute a significant revenue share. The Company has filed 36 ANDAs with the USFDA and product dossiers in Canada, Europe, South Africa, India, and the Rest of the World. Laurus Generics GmbH (Germany) and Laurus Generics Inc. (USA), wholly owned subsidiaries, are vertically integrated and trusted suppliers of high-quality, cost-effective generic medicines to European and American countries.

Revenue from Generic Formulation segment (Rs. Bn)

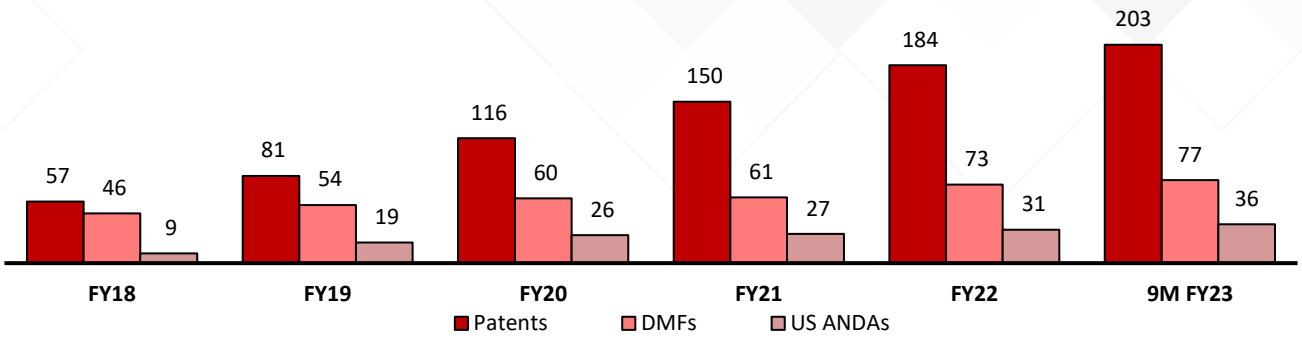


Source: Company, Keynote Capitals Ltd.

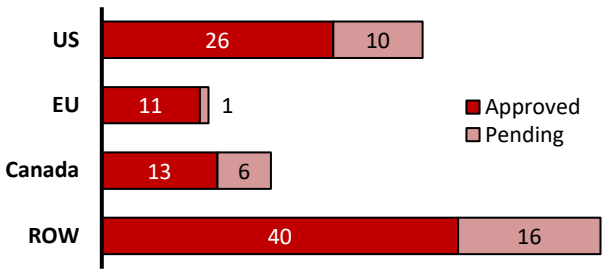
Revenues from formulations declined by 46% YoY in 9M FY23 due to less procurement from global agencies due to inventory destocking and adverse pricing in the ARV segment. However, ARV sales rebound from Q2 and are likely to normalize further. The sales from developed economies increased due to high volume demand from existing and new products, offsetting price declines.

The Company aims to retain market share in the ARV segment and launch a few potential second-line treatments in the ARV segment. The Company aims to create a niche product pipeline for the developed markets and has evaluated a strong pipeline in the US and Europe markets for other APIs of an addressable market size of ~$45 Bn and has filed for the same backed by in-house API strength.

Regulatory Filings

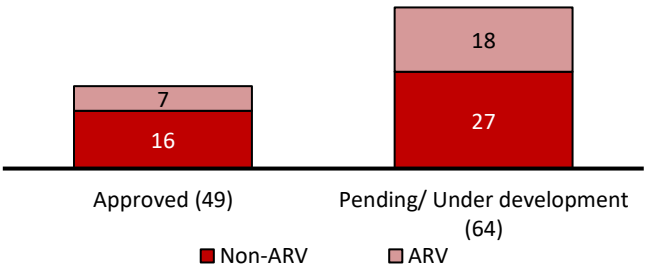


Global developed market filings



Source: Company, Keynote Capitals Ltd.

US/EU pipeline by addressable market ($ Bn)



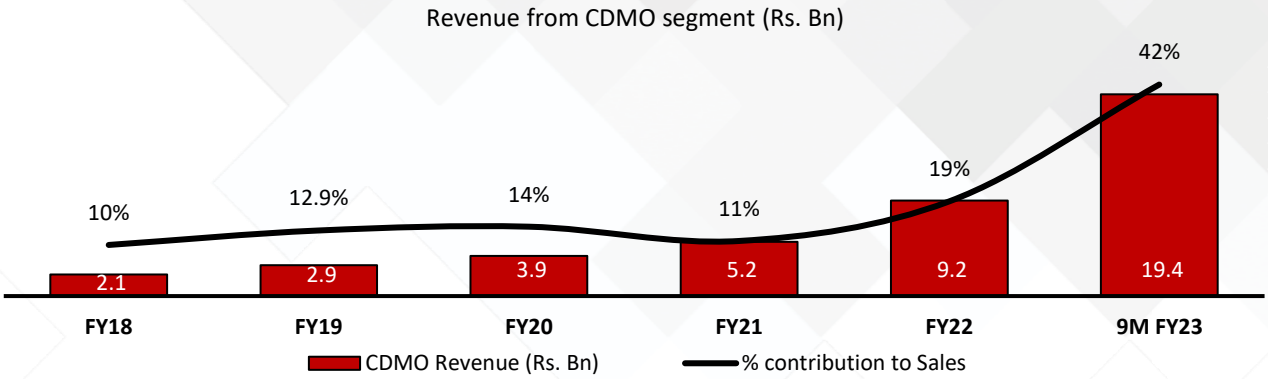
Note: The graph represents opportunity size, and the number in the bracket represents the number of products in the pipeline
Source: Company, Keynote Capitals Ltd.

Synthesis (CDMO) (42% revenue contribution as of 9M FY23)

Innovative, robust, and scalable chemistry is the core strength of Laurus. The Company provides drug development and manufacturing services for global pharmaceutical and biotech companies at all stages. Laurus is well-positioned to meet clients' NCE and Generic API and formulation needs from the preclinical stage to commercial manufacturing. Laurus's key capability includes chiral chemistry, steroid chemistry, high potent, and large-scale manufacturing. The Company also invested in Immuno ACT Pvt Ltd to acquire advanced cell and gene therapy research services.

Laurus Synthesis Pvt Ltd (LSPL), a subsidiary of Laurus, has stepped up investments in capacity creation to build manufacturing facilities leading to self-sufficiency for the CDMO business in the future. LSPL will have its own R&D facility and manufacturing units by FY24E.

The Company works with four Big Pharma clients as of FY22. The Company is currently working on over 60 active projects at different stages (Phase- I, II, and III + CMO) and works to deliver ongoing commercial supplies for about ten products, including APIs and several intermediaries. The CDMO segment saw a sharp jump in the number of projects from 50 to 60 in 9M FY23 due to a jump in the active projects in the late-stage clinical programs and ongoing commercial supplies stage, which are expected to grow further.



Source: Company, Keynote Capitals Ltd.

The CDMO segment is well-diversified with a portfolio of steroids and hormones, dietary supplements, and cosmetic ingredients. The Company has also diversified into animal health but is at a small base and is expected to grow once the facilities are qualified.

The Company's ingredients segment offers CDMO services for nutraceutical and cosmeceutical clientele through manufacturing procedures conforming to international compliance standards. Laurus has developed technologies for key ingredients, including carotenoids and novel nutraceutical co-crystals. The Company has established leadership in manufacturing and supplying natural identical and highly-pure polyphenols.

Product offerings in the CDMO segment

Product Development

Drug Substance Services
- Chemical process development (Pre-clinical to P-III/Commercial
- Drug substance manufacture, CMC, and regulatory filings support
- Custom Synthesis

Analytical Development Services
- Method development and validation
- Stability studies
- Impurity identification
- Reference standard characterization

Product Development Services
- Pre-formulation studies
- Formulation development and filing support for NDA submissions
- Dosage form development for NCEs

Contract Manufacturing

APIs, Finished Dosage Forms & Starting Material
- Tech transfer from client sites with project management support
- Securing RM supply chain; back-integrating and building custom build blocks wherever necessary

Niche Solutions

High-Potent API
- Extensive manufacturing of High Potent APIs & Intermediates at the pilot scale & commercial scale
- Facilities designed for enabling operational containment levels of OEL

Chiral Separations

Conventional column chromatography capability laboratory, pilot and commercial scale

Collaborative and Integrated Offerings
- Integrated drug substance and drug product development
- Dedicated facility deployment and manufacture

Source: Company, Keynote Capitals Ltd.

The Company intends to invest Rs. 10 Bn in the CDMO segment between FY23 and FY24. Laurus aims to build a total of five manufacturing facilities for the CDMO segment by FY25E. This will lead to pipeline expansion by leveraging integrated capacity in API and formulations to deepen the existing relationship and acquire new clients by addressing client IP protection issues.

Biotechnology (2% revenue contribution as of 9M FY23)

Laurus entered the rapidly growing biotechnology segment by acquiring a ~72.55% stake in Richcore Lifesciences (Richcore) in 2020. The Company announced the acquisition for ~Rs. 2.5 bn, valuing the business at ~6x sales and 15x EBITDA of FY21. Richcore is an integrated research-driven biomanufacturing organization with over 15 years of experience in precision fermentation and recombinant DNA technology. Post the acquisition, Richcore was renamed Laurus Bio and became a subsidiary of Laurus. This acquisition gave Laurus entry into the broader biologics and biotechnology segments, providing access to high-growth areas in domestic and global markets.

Richcore develops biotech products critical for manufacturing biological drugs and helps its global customers to develop their bio-processes by providing CRO and CDMO services. Richcore has large-scale fermentation capabilities and manufactures Animal-Origin-Free (AOF) recombinant products, which help vaccine, insulin, and stem-cell-based regenerative medicine companies reduce dependency on animal and human blood-derived products. The biotechnology products cater to the unique requirements of industries such as stem cells and regenerative medicine, vaccines and biological drugs, cultured meat, and cell-culture media manufacturing.

Laurus aims to become a major player in the biotech CDMO and bio-catalysis as Richcore brings significant expertise in enzyme development for pharmaceutical and other industrial applications. As of FY22, Laurus Bio has a 180 kiloliter (KL) fermentation capacity in food proteins and generated Rs. 790 Mn revenue as of 9M FY23. Future growth in the segment is expected to be driven by new capacities and improved synergies with Laurus. Currently, the Company will focus only on the recombinant food proteins until FY25E, for which the Company is setting up a 1 Mn liter large fermentation capacity. The Company is in internal strategic discussions to enter therapeutic proteins in couple of years.

Manufacturing facilities

Manufacturing facilities and R&D infrastructure is the backbone of Laurus. The Company has seven manufacturing facilities in Visakhapatnam, one API facility, and one R&D center with a Kilo Lab in Hyderabad. The Company also has the fermentation capacity at two units under Laurus Bio. Based on a healthy product pipeline progress, the Company continues to invest in strengthening its manufacturing capacity. Laurus operates on economies of scale in manufacturing, distribution, and procurement to maintain a cost advantage and invest in R&D to reduce raw material consumption, increase productivity, and strengthen customer relationships.

Facility	Location	Year started	Capacity	Manufactures
Unit 1	Vishakhapatnam	2008	334 Reactors, 1240 KL	API, CDMO Synthesis
Unit 2	Vishakhapatnam	2016	10 Bn tablets per year, 12 reactors with 89 KL capacity	FDFs & APIs
Unit 3	Vishakhapatnam	2015	297 Reactors, 2320 KL	API
Unit 4	Vishakhapatnam	2018	207 Reactors, 1960 KL	API, CDMO Synthesis
Unit 5 (SEZ)	Vishakhapatnam	2017	51 Reactors, 151 KL	CDMO Synthesis (Hormone and steroid facility)
Unit 6	Vishakhapatnam	2018	68 Reactors, 758 KL + 700 KL under expansion	APIs and Intermediates
Sriam Labs	Hyderabad	2018	31 Reactors, 81 KL	API and Intermediates
Kilo Lab – R&D	Hyderabad	2008	43 Reactors, 4.3 KL	Pre-commercialisation activites - API, CDMO Synthesis
LSPL-1	Vishakhapatnam	2020	42 Reactors, 139 KL, 3 all glass reactors	API, CDMO Synthesis
R1 (Richcore)	Bangalore		Fermentation capacity of 10.75 KL (2 reactors of 5 KL & 3 reactors of 250 L), CDMO	Bio-ingredients, In-house QC lab suited to microbial testing
R2 (Richcore)	Bangalore		Fermentation capacity of 180 KL (4 fermenters of 45 KL)	Bio-ingredients, CDMO

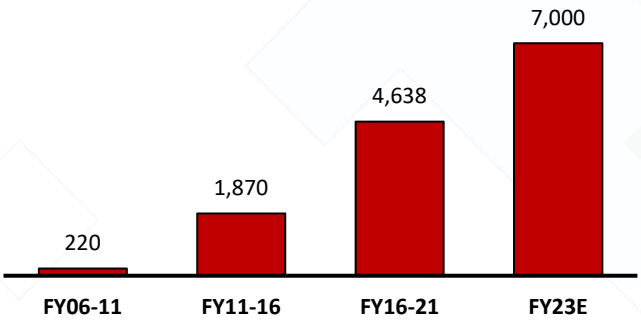
Source: Company, Keynote Capitals Ltd.

Laurus continuously invests in upgrading and expanding its manufacturing facilities for all its segments. The Company has made a greenfield investment to set up a dedicated R&D center in Hyderabad and three manufacturing units in Visakhapatnam. Recently, the Company underwent a brownfield expansion in the formulation segment to increase its capacities from 6 Bn units to 10 Bn units and can further commission facility for 5 Bn units as and when necessary. This expansion's benefits will be better utilized in FY24E as the Company gets better demand visibility.

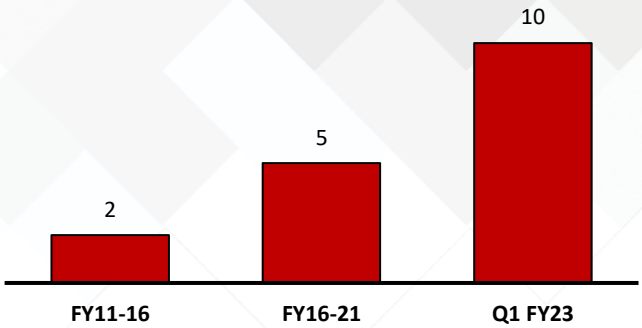
The Company expects to increase its API manufacturing capacity by 20% in FY23. New CDMO facilities will have capabilities to handle animal health and dedicated blocks for steroids, hormones, and high-potent molecules apart from large-scale products. The Company expects to qualify for one of the dedicated animal health manufacturing facility site H1 FY24. The biotechnology labs are undergoing debottlenecking, and the Company has acquired land to set up an R3 lab near Mysore, post which the site will have a fermentation capacity of up to 2 Mn liters.

Increasing capital expenditure in augmenting manufacturing capacities

Total reactor capacity (KL)



Formulations capacity (Bn units)

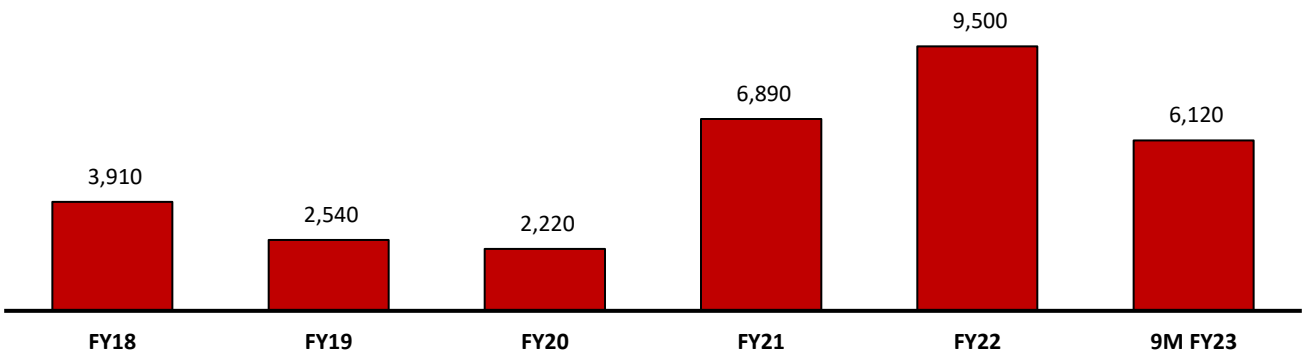


Source: Company, Keynote Capitals Ltd.

The Company's Capex has increased exponentially in recent years owing to major investments in greenfield and brownfield projects for capacity expansion, debottlenecking, and backward integrations.

The Company intends to infuse Rs. 20 Bn during FY23 and FY24 in the form of Capex, majorly through internal accruals. Out of this, almost half of Capex will be done in the CDMO segment in setting up R&D centers and manufacturing facilities for CDMO. The rest of Rs. 10 Bn will be invested in non-ARV segments, of which two-thirds will be invested in non-ARV APIs and the balance in the formulation.

Capex (Rs. Mn)



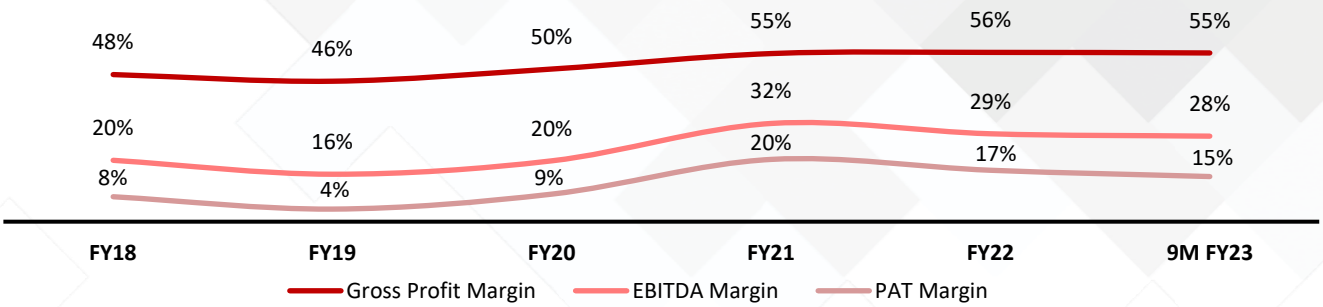
Source: Company, Keynote Capitals Ltd.

Capacity under expansion

Location	Expansion type	Division	Status and capacity	Operational
Vizag	Greenfield	Generic API	Unit 7, 8 – land acquired	FY24 / FY25
Vizag	Greenfield	CDMO - Synthesis	Land acquired (Unit 2 and Unit 4 – LSPL)	FY24
Vizag	Greenfield	CDMO - Synthesis	Land acquired (Unit 3 – LSPL)	FY24 / FY25
Hyderabad	Greenfield	Generic Formulation	Unit 9 – land acquired	Phase 1 – FY25
Hyderabad	Greenfield	R&D center (Synthesis)	Land acquired	FY24

Source: Company, Keynote Capitals Ltd.

Visible margin improvement over the years



Source: Company, Keynote Capitals Ltd.

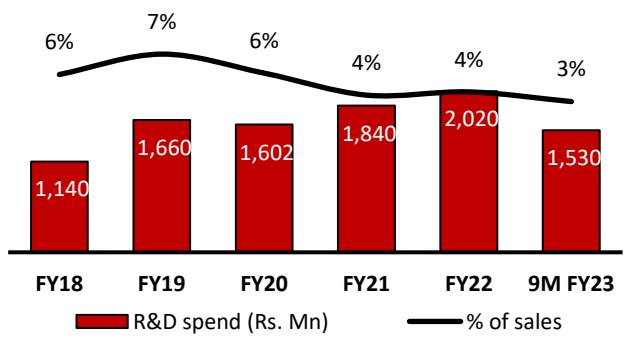
The margin improvement has been majorly due to the change in operating leverage and product mix, as the CDMO contributes the highest gross margin, followed by formulation and API. Thus, the increasing share of CDMO in the overall revenue has been one of the major drivers for the increase in margins. However, increasing margins due to the rising share of CDMO in FY22 and 9M FY23 was offset by high pricing pressure in the ARV segment. Laurus being in the manufacturing industry, has a long cash conversion cycle due to high inventories. The Generic API segment witnessed softer demand and price erosion, resulting in an inventory pile-up and impact on the realization by ~10% during 9M FY23.

Focus on innovation through investments in R&D

The Company focuses on R&D to modify & innovate the manufacturing process and manufacture high-volume products to achieve economies of scale. Laurus is also moving up in the value chain by investing in complex generics. The Company invests in a product portfolio with a product-specific approach based on complexity and its scaling economies.

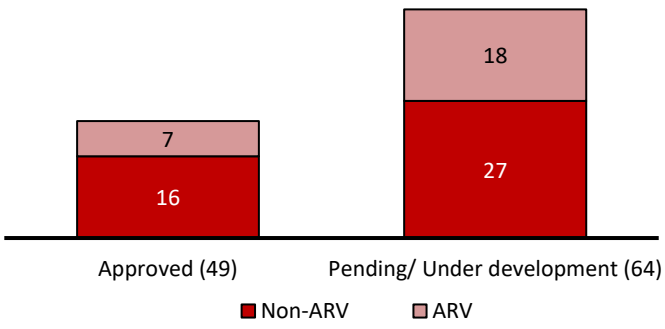
As of Q3 FY23, the Company's R&D pipeline has 64 products in development or under review phase, with an addressable market of ~$45 Bn in sales. Laurus received two approvals in Canada, taking the total number of approvals in Canada to 13. The Company has launched eight products and intends to launch at least one product every quarter for the next few quarters. The Company has validated three products as part of the contract manufacturing partnership and expects a significant upside from them in the coming quarters. Laurus has a basket of 11 approved products in Europe, of which the Company has already launched six and intends to launch a few products shortly.

R&D spend (Rs. Mn)



Source: Company, Keynote Capitals Ltd.

US/EU pipeline by addressable market ($ Bn)



Note: The graph represents opportunity size, and the number in the bracket represents the number of products in the pipeline
Source: Company, Keynote Capitals Ltd.

Management Analysis

Key Managerial Personnel

Name	Designation	Qualification	With Company since
Dr. Satyanarayana Chava	Executive Director & CEO	M.Sc, Ph.D	2006
Mr. Venkata Ravi Kumar Vantaram	Executive Director & CFO	M.Com	2006
Dr. Venkata Lakshmana Rao	Executive Director	M.Sc, Ph.D	2007
Mr. Srinivasa Rao S	Executive Vice President – Manufacturing and Operations	M.Sc	2008
Mr. Narasimha Rao DVL	Sr. Vice President – Synthesis	M.Sc, PGDEM, PGDCA	2007
Mr. Ch. Sita Ramaiah	Sr. Vice President – Finance	CA	2007
Mr. Rajaram Iyer	Senior Vice President – Portfolio Management	MICA, MBA	2020
Mr. S Srinivasa Rao	Executive Vice President – Manufacturing	M.Sc	2006
Mr. Krishna Chaitanya Chava	Executive Vice President – Head Synthesis and Ingredients	MS, MBA	2017

Source: Company, Keynote Capitals Ltd.

Currently, the board has 10 directors with a minimum experience of more than 10 years, headed by the Chairman, Dr. Satyanarayan Chava. He is the mastermind behind Laurus' evolution and has more than three decades of experience in various industry domains, such as R&D and API process development.

Promoter Holding and Remuneration

Particulars	FY20	FY21	FY22	Q3 FY23
% Promoter Holding	32.0%	27.5%	27.3%	27.2%
Promoter Salary (Rs. Mn)	80	179	275	NA
Promoter Salary as a % of PAT	3%	2%	3%	
Promoter + Senior Management Salary (Rs. Mn)	180	344	507	
Promoter + Senior Management Salary as a % of PAT	7%	3%	6%	

Source: Company, Keynote Capitals Ltd.

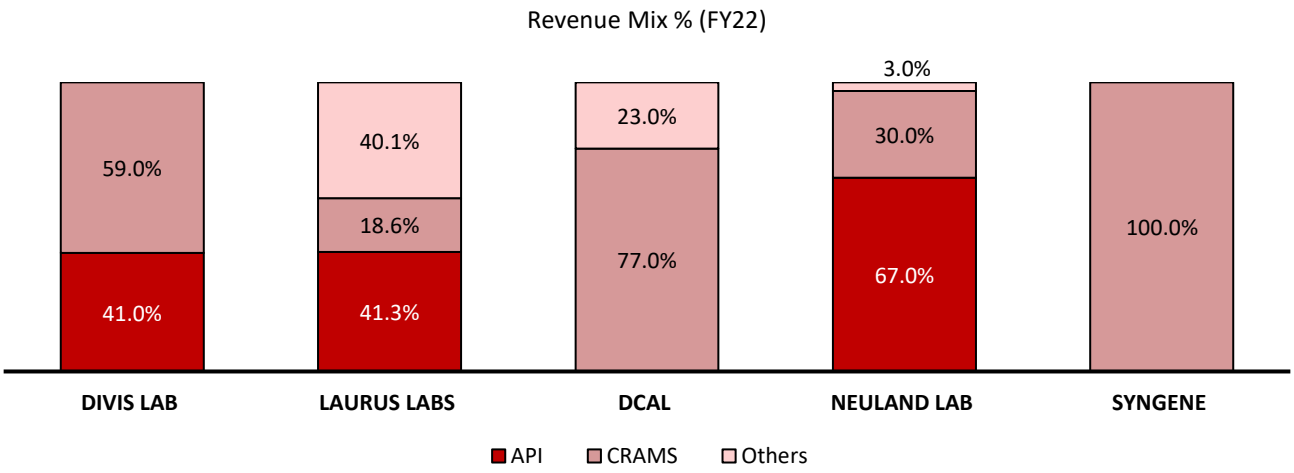
Promoter shareholding has been decreasing over the past three years. Promoter and senior-level management salaries have also been within the prescribed ceiling.

Peer Analysis

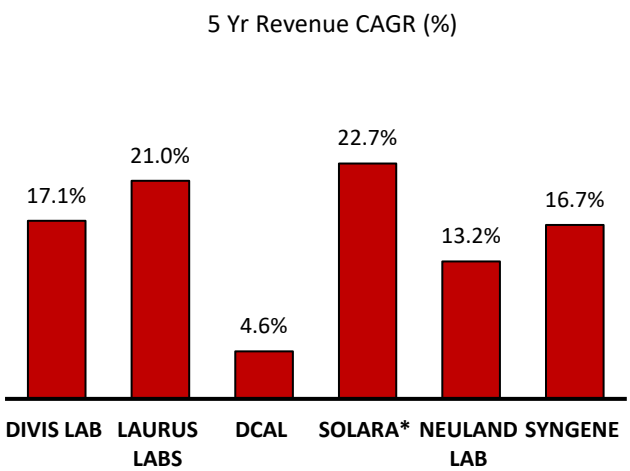
Brief description of Peers

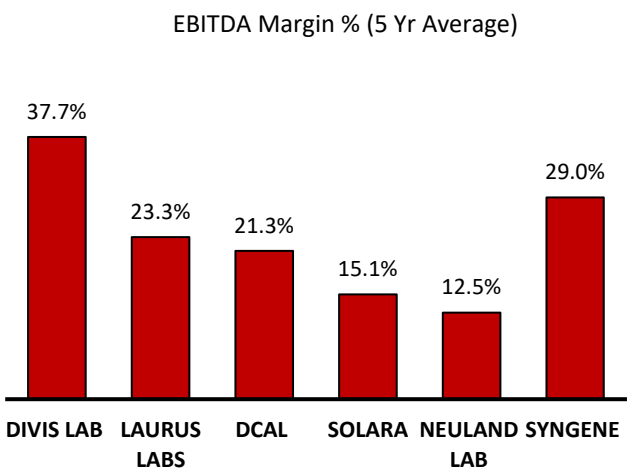
Company	MCAP (Rs. Bn)	Business Description
Divis Labs	749	The Company is engaged in the manufacturing & development of API and offering CRAMS services for global companies.
Dishman Carbogen	20	The company is engaged in CRAMS and manufacture and supply of marketable molecules such as specialty chemicals, vitamins & chemicals and disinfectants.
Solara Active Pharma	12	The Company is engaged in the manufacturing & development of API and offering CDMO services for global companies.
Neuland Lab	23	Engaged in manufacturing and selling bulk drugs, including generic and complex API. The company also offers CSM services to innovator pharma and biotech companies.
Syngene Intl	232	The Company is an integrated research, development, and manufacturing organization providing scientific services from early discovery to commercial supply.

Source: Company, Keynote Capitals Ltd.



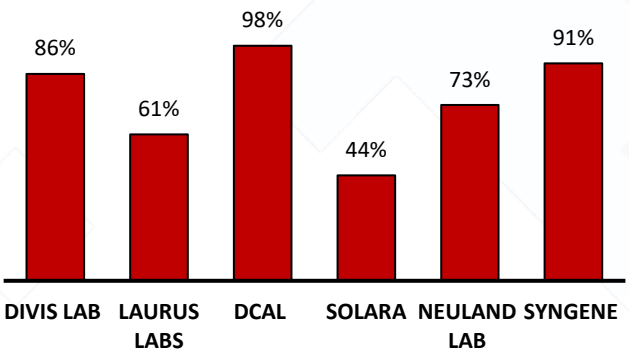
**Solara does not disclose revenue mix, CRAMS contribution to the total revenue is in single digit*
Source: Company, Keynote Capitals Ltd.



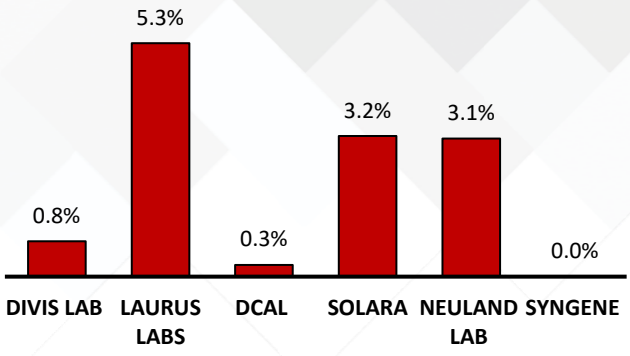


Note: All figures are from FY18 to FY22 unless mentioned
**4 Yr CAGR*
Source: Company, Keynote Capitals Ltd.

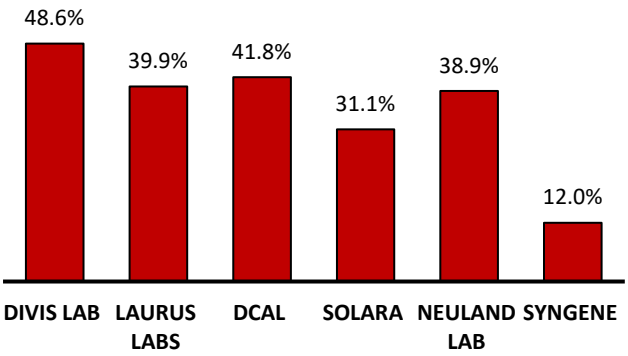
% of Revenue from Exports (5 Yr Average)



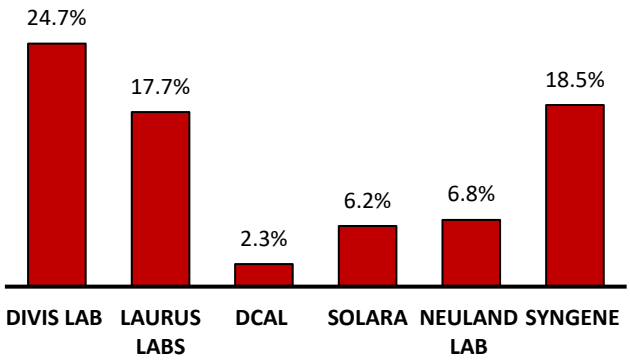
R&D Expense as % of revenue (5 Yr Average)



Net Working Capital as a % of revenue (5 Yr Average)



ROCE % (5 Yr Average)



Note : All figures are from FY18 to FY22, unless mentioned
Source: Company, Keynote Capitals Ltd.

Laurus's revenue has grown in line with its peers with better margins, resulting in better ROCE at ~18%, higher than many of its peers. Laurus has the highest R&D spend as a % of revenue as the Company focuses on expanding its product portfolio, strengthening its technical capabilities, and providing efficient CDMO services.

Opportunities

Consistent growth opportunities in the CDMO segment

Innovative, robust, and scalable chemistry is the core strength of Laurus. The segment contributes 42% to overall revenue in 9M FY23 and has high growth visibility in this segment. Laurus's subsidiary LSPL manages the CDMO segment. The Company is building dedicated capacity for the CDMO segment and LSPL to be self-reliant in the future. Separating LSPL will address a key client concern around IP protection which will be a differentiator for Laurus's CDMO segment.

Expansion in business is driven by commitments from existing customers and an increase in product portfolios. The Company intends to expand its early-stage pipeline, which will also help late-stage commercialization projects. However, due to insufficient capacity, the Company faces challenges in increasing its pipeline in both R&D and manufacturing. Thus, the Company intends to set up a total of five manufacturing facilities and an R&D center for the CDMO segment by FY25E. The Company plans to invest Rs. 10 Bn between FY23-24 in the CDMO segment to set up dedicated infrastructure for the CDMO segment. Post-commencing production, this is expected to generate incremental revenue up to Rs. 15 Bn at optimum utilization for the CDMO segment.

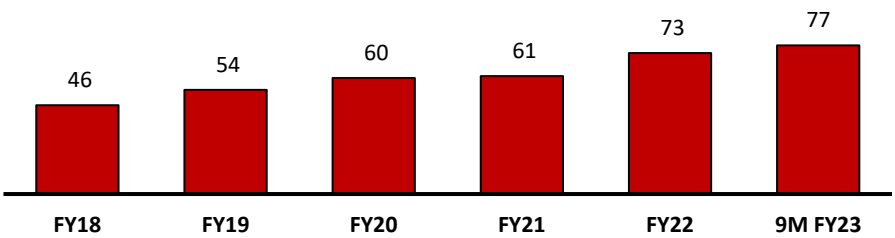
The segment saw a sharp jump of 10 projects in Q3 FY23 due to increased clinical supplies projects, which are expected to grow further. LSPL has signed a multiyear contract with a leading global life science company for which the commercial supplies will begin from Q1 FY24. The CDMO segment contributes the highest gross profit margins to the business, and thus going forward, the Company expects the CDMO segment to grow faster than the overall business.

Growth levers in the Generic API segment

The generic API segment contributes ~41% to the overall revenue as of 9M FY23. The ARV API is the largest contributor to the sales, contributing ~61% to the API sales and ~25% to the overall revenue in 9M FY23. After the sharp jump in FY21, the ARV business has stabilized and is expected to grow at a single digit in the future. Laurus is expanding its high-potent capacities, as the Company expects high growth in the Oncology segment for the next couple of years.

The Other API segment contributed ~29% of API sales and ~12% of overall revenue as of 9M FY23 and is expected to increase in the future, backed by demand-based capacity expansion. Laurus filed 3 DMFs in Q3 FY23 in the non-ARV segment, taking the overall count of DMFs to 77, and future filings are expected to continue mainly in Other APIs. Moreover, the upcoming patent expiry is expected to bring opportunities for Laurus in therapeutic areas like Oncology, anti-diabetic, CVS, and CNS going forward.

DMF filings (cumulative)



Source: Company, Keynote Capitals Ltd.

The API manufacturing capacity is expected to increase by 20% YoY in FY23. The Company intends to infuse Rs. 10 Bn between FY23-24, of which Rs. 6-7 Bn will be invested in the non-ARV API segment. Investments in manufacturing facilities backed by improved industry demand and pricing scenarios, along with the growth from diversified segments, are expected to drive the growth in the Generic API segment.

Capacity expansion in the formulations to sustain future growth

Laurus aims to become a leading player in offering integrated solutions to the global market. The formulation segment contributed ~16% to the overall of Laurus's revenue in 9M FY23, as it saw a degrowth of 46% YoY in 9M FY23 due to less procurement from global agencies due to inventory destocking and pricing pressure in the ARV segment. The formulation business has, over the years, increased its contribution to the revenue from ~2% in FY19 to ~38% in FY22, supported by a strong order book from LMIC tenders. Laurus plans to further diversify into non-ARV formulations and expects the US and Europe to contribute a significant revenue share. The Company has filed 36 ANDAs with USFDA with 12 tentative approvals in the US. In addition, the Company has filed 8 product dossiers in developed markets.

ANDA filings with USFDA (cumulative)

Source: Company, Keynote Capitals Ltd.

The Company's state-of-art solid oral finished dosage facility in Visakhapatnam has a commercial capacity of 10 Bn units, conforms to international regulatory standards, and has dedicated formulation research labs. The Company recently doubled its formulation capacity from 5 Bn units in FY21 through capacity expansion and debottlenecking. The contract manufacturing for the Europe partner is for non-ARV products, which is expected to reduce the contribution from the ARV segment going forward, and thus the major capacity expansion has been done for non-ARV formulations.

The Company intends to infuse Rs. 10 Bn between FY23-24, of which Rs. 3-4 Bn will be invested in the non-ARV formulation segment. The Company aims to retain market share in the ARV segment and launch a few potential second-line treatments in the ARV segment. The Company aims to create a niche product pipeline for the developed markets and has evaluated a strong pipeline in the US and Europe markets of an addressable market size of ~$45 Bn and has done filings for the same, which is expected to deliver growth in the formulations segment going forward.

Challenges

Portfolio concentration risk

The Company's ARV portfolio contributes ~55% of the overall revenue in FY22. While the contribution from the ARV portfolio has decreased over the years, contributing 35% in 9M FY23 due to high pricing pressure in the market, it still creates product concentration risk. The Company is diversifying from the ARV portfolio to the non-ARV portfolio to reduce dependency on the ARV segment and move towards high-growth therapeutic areas through manufacturing other APIs and intermediates. However, a decline in demand in terms of volumes and pricing pressure in the ARV portfolio could significantly impact ARV's profitability, resulting in negative operating leverage and impact on the Company's profit.

Regulatory issues

The pharmaceutical industry is exposed to regulatory risk, as the industry is highly regulated and requires various approvals, licenses, registrations, and permissions for business activities. Failure to adhere to them could severely affect the Company's reputation, directly affecting its growth and profitability. Laurus's manufacturing facilities underwent various inspections, and in 2019, 2022, and February 2023, USFDA stated certain observations. Although they were procedural, and no data integrity issues were observed, any such issues can arise in the future that could affect the Company's operations for the time being. Moreover, the government controls prices via price caps on essential medicines under the National List of Essential Medicines (NLEM). Thus, if the drug falls under the category of essential medicines, the Company cannot charge a premium for them, affecting the margins.

Volatility in the CDMO segment

The CDMO segment contributed ~42% to overall revenue in 9M FY23. The revenue depends on orders from the customers, which makes the revenue from the segment volatile.

Pricing pressure in the Generic API industry

The Company tries to pass most of the price hikes to its customers; however, it may sometimes be challenging in the generic business. Sudden hikes in raw materials prices and the inability to pass them on to the customers as they are sold at competitive prices could be detrimental to the margins of the Generic API and formulations business. In Q3 FY23, the Company faced pricing pressure in its core portfolio and increased raw material prices.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	**48,135**	**49,356**	**59,849**	**66,947**	**77,679**
Growth %		3%	21%	12%	16%
Raw Material Expenses	21,076	21,339	26,693	29,524	33,868
Employee Expenses	3,970	4,696	5,733	6,413	7,441
Other Expenses	7,582	9,097	10,833	11,917	13,671
EBITDA	**15,507**	**14,224**	**16,591**	**19,094**	**22,698**
Growth %		-8%	17%	15%	19%
Margin%	32.2%	28.8%	27.7%	28.5%	29.2%
Depreciation	2,051	2,515	3,092	4,137	4,936
EBIT	**13,456**	**11,709**	**13,499**	**14,956**	**17,762**
Margin%	28%	24%	23%	22%	23%
Interest Paid	682	1,024	1,218	1,256	1,130
Other Income & exceptional	237	153	150	150	150
PBT	**13,011**	**10,839**	**12,431**	**13,851**	**16,782**
Tax	3,173	2,514	3,481	3,878	4,699
PAT	**9,838**	**8,324**	**8,950**	**9,972**	**12,083**
Others (Minorities, Associates)	2	45	-2	-2	-2
Net Profit	**9,841**	**8,369**	**8,948**	**9,970**	**12,081**
Shares (Mn)	536.6	537.4	537.4	537.4	537.4
EPS	**18.33**	**15.40**	**16.65**	**18.55**	**22.48**

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash, Cash equivalents & Bank	485	759	2,277	-225	1,774
Current Investments	0	0	0	0	0
Debtors	13,061	13,542	15,561	17,406	20,196
Inventory	15,755	17,603	21,354	23,619	27,094
Short Term Loans & Advances	884	1,345	1,345	1,345	1,345
Other Current Assets	565	197	197	197	197
Total Current Assets	30,749	33,446	40,734	42,342	50,607
Net Block & CWIP	25,328	34,657	42,039	47,943	50,775
Long Term Investments	34	308	306	304	302
Other Non-current Assets	1,396	1,269	1,269	1,269	1,269
Total Assets	**57,507**	**69,680**	**84,348**	**91,859**	**1,02,953**
Creditors	11,787	8,764	12,178	12,715	14,937
Provision	251	542	542	542	542
Short Term Borrowings	8,861	9,107	9,107	9,107	9,107
Other Current Liabilities	3,673	8,397	8,397	8,397	8,397
Total Current Liabilities	24,572	26,810	30,224	30,762	32,984
Long Term Debt	4,292	5,963	9,163	7,163	5,163
Deferred Tax Liabilities	192	691	691	691	691
Other Long Term Liabilities	2,445	2,625	2,625	2,625	2,625
Total Non Current Liabilities	6,928	9,280	12,480	10,480	8,480
Paid-up Capital	1,073	1,075	1,075	1,075	1,075
Reserves & Surplus	24,902	32,437	40,490	49,463	60,336
Shareholders' Equity	25,975	33,512	41,565	50,538	61,411
Non Controlling Interest	32	79	79	79	79
Total Equity & Liabilities	**57,507**	**69,680**	**84,347**	**91,858**	**1,02,953**

Source: Company, Keynote Capitals Ltd. estimates

Cash Flow Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	13,011	10,839	12,431	13,851	16,782
Adjustments	2,545	3,511	4,160	5,243	5,916
Change in Working Capital	-5,941	-3,416	-2,356	-3,572	-4,044
Total Tax Paid	-2,285	-1,823	-3,481	-3,878	-4,699
Cash flow from operating Activities	**7,330**	**9,111**	**10,754**	**11,643**	**13,956**
Net Capital Expenditure	-6,839	-8,767	-10,474	-10,042	-7,768
Change in investments	0	-276	0	0	0
Other investing activities	-2,571	-100	150	150	150
Cash flow from investing activities	**-9,410**	**-9,143**	**-10,324**	**-9,892**	**-7,618**
Equity raised / (repaid)	73.8	43.1	0	0	0
Debt raised / (repaid)	3,911	2,702	3,200	-2,000	-2,000
Dividend (incl. tax)	-750	-859	-895	-997	-1,208
Other financing activities	-687	-1,584	-1,218	-1,256	-1,130
Cash flow from financing activities	**2,547**	**303**	**1,087**	**-4,253**	**-4,338**
Net Change in cash	467	270	1,517	-2,502	1,999

Valuation Ratios

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data					
EPS	18	15	17	19	22
Book Value Per Share	48	62	77	94	114
Return Ratios					
Return on Assets (%)	21%	13%	12%	11%	12%
Return on Equity (%)	45%	28%	24%	22%	22%
Return on Capital Employed (%)	33%	22%	18%	18%	19%
Turnover Ratios					
Asset Turnover (x)	1.0	0.8	0.8	0.8	0.8
Sales / Gross Block (x)	1.8	1.5	1.3	1.1	1.1
Working Capital / Sales (x)	8%	13%	14%	16%	19%
Receivable Days	80	98	89	90	88
Inventory Days	215	285	266	278	273
Payable Days	118	162	126	143	135
Working Capital Days	176	222	230	225	226
Liquidity Ratios					
Current Ratio (x)	1.3	1.2	1.3	1.4	1.5
Interest Coverage Ratio (x)	20.1	11.6	11.2	12.0	15.8
Total Debt to Equity	0.6	0.5	0.4	0.3	0.2
Net Debt to Equity	0.5	0.5	0.4	0.3	0.2
Valuation					
PE (x)	19.7	38.3	17.8	16.0	13.2
Earnings Yield (%)	5%	3%	6%	6%	8%
Price to Sales (x)	4.0	6.4	2.7	2.4	2.1
Price to Book (x)	7.5	9.5	3.8	3.2	2.6
EV/EBITDA (x)	13.4	23.5	10.6	9.2	7.8
EV/Sales (x)	4.3	6.8	2.9	2.6	2.3

Valuations

Particulars (Rs. Mn, unless mentioned)	Estimates
Estimate Period	**FY24E**
Revenue	66,947
EBITDA	19,094
EV EBITDA Multiple (x)	12.2
Enterprise Value	2,33,707
Net Debt (as of Sept'22)	20,950
Market Capitalization	2,12,757
Fair Value per Share (Rs.)	**396**
Upside / (Downside) (%)	**35%**

Source: Company, Keynote Capitals Ltd. estimates

We have assumed revenue growth of ~12% in FY24E on the back of high growth expected from the CDMO and Other API segments and recovery in the realization of the ARV segment.

Margins have been impacted due to pricing pressure in the ARV segment. However, reduction in the contribution of the ARV segment to the overall revenue, and an increase in the contribution of the CDMO segment, which is the higher margins business, we believe there will be a gradual improvement in the EBITDA margins going forward to reach ~29% by FY24E.

Looking at the capacity expansions done for patent expiry opportunities, offering CDMO services, and expanding reach in developed markets through niche product pipelines; we are assigning an EV EBITDA multiple of 12.2. We have ascribed the EV EBITDA multiple at a 15% discount from the historical median multiple as the pricing pressure in the ARV segment has affected the overall profitability of the business, and the pricing scenario looks uncertain.

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Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
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