

CMP: Rs.140 Weight:5%

21-09-2017



STOCK DATA

Market Cap(Rs. cr)	319
Debt	108
Cash	1
Enterprise Value	426
Promoters Holding	46.07%
52 week high/low	147.20/136
Shares outstanding (In Cr.)	2.28

KEY FINANCIALS

(Rs. in cr)

Y/E March	2014	2015	2016	2017
Revenue	34.2	71	136	200
EBITDA	NA	NA	NA	45.54
PBT	4.81	10.55	19.44	27.6
Exceptional Item	-	-	-	30.61
Taxes	1.61	2.86	8.23	- 2.39
PAT	3.2	7.69	11.21	-0.63

VALUATION – We believe LASA will grow at 25% for next 2-3 years and expect ROE to be above 25%. The company trades at a PE Ratio of 12x FY2018 and EV/EBITDA of 6x 2018. The Peers in the Industry trade at between 9x-30x EV/EBITDA. The Risk we hold is Promoter Risk, though we believe it's a new beginning that that risk is unlikely to get triggered. We believe the company can deliver 100% Returns in next 1-1.5 years with 10-20% Downside Risk.

LASA Supergenerics Ltd

Thesis –

At Stallion Asset we have a consistent Philosophy of buying companies that can:

- 1) Grow at more than 25%
- 2) Huge Opportunity Size
- 3) High Return on Equity
- 4) Smart Management

Lasa Supergenerics is in the unregulated Animal Healthcare space and got demerged today from his parent Omkar Speciality. The Company was bought over by Omkar Speciality for mere 6 Crores in 2012 and today the company holds 35% Domestic Market share in Veterinary API market.

Historically the Highest Wealth is created when the company is in growth stage i.e. within the first 10 years of inception with a good product & Gaining market share but with emergence of Private Equity the companies have easy access to private capital without taking on the compliances of Stock Exchanges. Private Equity Investors end up making a fortune & Selling it to us at IPO after enjoying the best part of the valuation Increase.

Lasa has got demerged from Omkar and we believe it's in the Initial Growth Stage with a superb product, Gaining Market Share, Reasonable valuation, High ROE & Good Opportunity size in the Veterinary API business.

The Company has Grown Sales at 79% CAGR and Profits at 78% for last 3 Years. The Company is in a very simple business of Active Pharma product (API) manufacturing with strong barriers to entry, & unlike its competitors who are export focussed, Lasa has domestic focus. The company has capacity utilization of 40%, which will yield huge operating leverage in the future.

About the Demerger from Omkar – The Demerger is a new beginning for both Father Mr Pravin Herlekar (Omkar Speciality) & Son Omkar Herlekar (Lasa Supergeneric). Every Shareholder of Omkar Speciality was given 1 share of Lasa Supergeneric.

Understanding the Business – Lasa was Acquired for 6 Crores in 2012 and its revenue was 1 crore in that year. The management understood the dynamics of the business and have scaled up the business to 200 Crores in FY2017 within 5 years.

Lasa	FY13	FY14	FY15	FY16	FY17
Sales (Cr)	10.8	34.2	71	136	200
PBT (Cr)	1.25	4.82	10.55	19.4	27.6
PBT %	11.57	14.09	14.86	14.26	13.8

Meaning - What is an API & Formulation? An API is the Active part of the Medicine i.e. for example for Crocin the API is Paracetamol. Paracetamol is the main remedy to the disease which is API. It is then Mixed with coating agents to form a final medicine in form of tablets that we consume which is called Formulation.

Lasa Supergeneric is currently on the Deworming side (remedy of Disease) which is just 20% of the total market, though will get into other products like vitamin and Food additives as it scales further. The Veterinary API Market is a 4500 Crore market globally and growing at 7-10%.

The Veterinary Market in India is a 3 tier market.

- 1) MNC's like Novartis, Merck, Glaxo etc have big formulation business' but don't produce the API and Outsource it from companies like Lasa
- 2) People with Dairy Farms
- 3) Poultry & Aquaculture.

Lasa has very diversified Clientele and no Single Product has less than 300 clients. There is no company in India except Lasa who is fully backward integrated from petrochemical level. The Company has 4 manufacturing units in Chiplun & Mahad.

Omkar has two decades of experience and specializes in catalyst chemistry - a catalyst basically helps in speeding up the reaction without changing the final product properties which leads to lower Raw material costs and help in yielding better results.

Why do we Like Lasa?

- 1) A New Beginning
- 2) Leadership & Market Share
- 3) Scalable Business & Operating Leverage
- 4) Less Regulated Animal API Market

Factor #1 - A New Beginning – Lasa's Demerger from Parent Omkar Speciality has led to a one time write off of 32 Cr in Lasa's book on account of difference between Net Book values of capital assets. **We believe this was done to clean up the balance sheet from the old manipulations which they may have done but this action has made the balance sheet look a lot leaner today. Since the Book Value is lower now, the Return Ratio's should**

look very good going forward and we expect at 25% Plus ROE for next 2-3 years. The Animal API business has a better Risk Profile and Stronger Growth Prospects compared to the Speciality chemical business of Omkar Speciality. Mr Omkar Herlekar (Son) has quite successfully managed Lasa post acquisition and after this Demerger from the parent, Mr Omkar Herlekar will be at the helm and responsible for day to day affair.

Factor #2 - Leadership & Market Share- The Company has 35% Market Share in the Indian Animal HealthCare API market. There are 4 main listed players in the Indian Veterinary market most of them having export Focus except Lasa. Each of these Players have a different market they are focussing on a different strategy.

Company Name	Revenue (cr)	Comment
LASA	200	Majority of Revenue from Domestic Market in API
NGL Fine Chem	100	70-75% Revenues from Exports into Animal API
Sequent	621	API - 25% of Revenue, Formulation 75% of Revenue, 80-85% Export
Hester Bioscience	123	Vaccines for Poultry, 35% Market Share in Poultry Vaccine

Lasa is concentrating on the domestic market (96% of Revenues) by producing the Lowest Cost Product & efficient process which increases Margin, Whereas Sequent which was primarily a API only player before 2013 has invested a lot of money in Formulation business. NGL Fine Chem is expanding capacity and concentrating on the export market. Hester Bioscience gets 90% of its revenues from Poultry vaccination and has expanded in Nepal lately with its new manufacturing plant.

In 2016, when an Analyst asked Mr Pravin Herlekar about his competition, he replied that sequent is the only player from whom he faces competition. Lasa's Domestic revenues are now larger than the domestic revenue of Sequent. Sequent has now been focussing on Global Markets and has made acquisition in turkey which helps Lasa increase market share.

Factor #3 Scaleable Business & Operating Leverage – Lasa has grown significantly since 2012 after the acquisition by Omkar Speciality Chemicals . The group had two businesses i.e. speciality chemicals and Animal API. Animal API from a zero business had started contributing to 26% consolidated business of Omkar pre demerger. The Company has already done Capex for the existing facility and there is no further requirement to do any large capex. One Analyst asked Mr Herlekar about the maximum turnover Lasa Facility can do, the management replied 500 Crores at 100% Capacity Utilization.

Atul Bhangadia: What is the maximum turnover you can generate from the existing LASA facility?

Omkar Herlekar: It is around Rs.500 crores of total top line we can generate out of this.

The Management has also guided that in the next 2-3 years they will achieve a topline of 500 Crores from 200 crores currently.

Deepak Poddar: Majorly the CAPEX is overall done. So are we trying to capture about Rs.500 crores of this revenue target that we...?

Omkar Herlekar: We are planning to capture around Rs.500 crores within 2.5-3-years.

The management has a history of being overoptimistic and we believe 25%+ growth is achievable in this business for next 2-3 years. The company does revenue of 200 crores whereas it has the capacity to do revenues of 500 crores i.e. it is working at 40% Capacity utilization. We believe there is huge operating leverage in this company.

Factor #4 – Unregulated Market - Unlike the Human API Market, the Animal Pharma market is less regulated and doesn't have regular FDA audits. The Plants of LASA are FDA & WHO approved. The Company is already supplying to Global Majors like Merck, Glaxo etc. The company has only 4% revenues from the lucrative export market which have higher margins and we believe the company can tap that opportunity going forward.

Risks – We believe the Biggest Risk in this company is the Promoters themselves. The Promoters track record has been very questionable & the stock price may trade cheap if the promoters don't change the perception about themselves.

Omkar Herlekar (son) has shown intentions to increase the stake in the company, it needs to be seen how he does it. There is a possibility that they show bad numbers, just so they can Increase the Stake. On the Other side, If he wanted to do that he wouldn't have shown good Q1 2018 numbers where revenue growth Increased 48% and Profit Before Tax Increase 64%. This Makes us believe that he may not indulge into manipulative practices.

Omkar Herlekar has been selling his personal Stake in his father's company Omkar Speciality to increase his shareholding in LASA.

Name of Person	Category of Person *	Securities held pre Transaction	Securities Acquired / Disposed				Securities held post Transaction	Period ##	Mode of Acquisition #
			Type of Securities **	Number	Value	Transaction Type			
Omkar Pravin Herlekar	Promoter	3628456 (17.63)	Equity Shares	200000	17311250	Disposal	3428456 (16.66)	14/09/2017 18/09/2017	Market
Omkar Pravin Herlekar	Promoter	3698456 (19.97)	Equity Shares	70000	6090000	Disposal	3628456 (17.87)	13/09/2017 13/09/2017	Market
Omkar Pravin Herlekar	Promoter	4193456 (20.37)	Equity Shares	495000	43425750	Disposal	3698456 (17.97)	08/09/2017 12/09/2017	Market
Omkar Pravin Herlekar	Promoter	4443456 (21.59)	Equity Shares	200000	17735000	Disposal	4243456 (20.62)	21/08/2017 23/08/2017	Market
Omkar Pravin Herlekar	Promoter	4593456 (22.32)	Equity Shares	150000	13437000.00	Disposal	4443456 (21.59)	01/08/2017 02/08/2017	Market
Omkar Pravin Herlekar	Promoter	4843456 (23.54)	Equity Shares	250000	23455000	Disposal	4593456 (22.32)	24/07/2017 26/07/2017	Market
Omkar Pravin Herlekar	Promoter	5251500 (25.52)	Equity Shares	408044	39306641	Disposal	4843456 (23.53)	20/07/2017 21/07/2017	Market

There is a Dispute between Father & Son over the way business has to run & Handled, both have proved themselves with Omkar Herlekar proving himself in Lasa whereas his father has a good reputation in the market.

Name	Designation
1) Mr. Omkar Herlekar	Chairman & Managing Director
2) Mr. Shivanand Hegde	Whole-Time Director
3) Mr. Sumant Kharasamble	Whole-Time Director
4) Mr. Hardesh Tolani	Independent Director
5) Mr. Ajay Sukhwani	Independent Director
6) Ms. Ekta Gurnasinghani	Independent Director
7) Mr. Hitesh Wadhvani	Company Secretary and Compliance Officer
8) Mr. Minesh Bhosle	Chief Financial Officer

Mr Pravin Herlekar (Father) is not on the Board of Director in Lasa though he is the second largest shareholder holding 9.18% Stake. Omkar Speciality owns another 10%, i.e. 19.18% is under control of Pravin Herlekar.

Working capital Risk – Omkar had unusually high working capital cycles of 150 days till 2016, but it has come down to 100 days. The management has confirmed that the working capital cycle of Lasa is no more than 20% of sales or 73 days.

Valuation -

Lasa	FY13	FY14	FY15	FY16	FY17
Sales (Cr)	10.8	34.2	71	136	200
PBT (Cr)	1.25	4.82	10.55	19.4	27.6
PBT %	11.57	14.09	14.86	14.26	13.80
PAT *	0.81	3.2	7.69	11.21	-0.63
PAT %	7.50	9.36	10.83	8.24	-0.32
EPS	0.36	1.40	3.37	4.92	-0.28

Lasa over the last 5 years has demonstrated a strong topline of 80% & bottom line of 86%. In FY2017 the company had exceptional items worth 32 crores which decreased EPS.

Company Name	FY17						Sales Growth
	Sales	EBITDA	PAT	EBITDA(%)	PAT(%)	ROE (%)	5 yearCAGR
LASA	200	45.54	20	22.77%	10.00%	28.5	86%
NGL Fine Chem	100	25.32	14.32	25.32%	14.32%	24.47%	22.60%
Sequent	900	105.4	-13.82	11.71%	-1.54%	NA	22.90%
Hester Bioscience	123	41.19	23.44	33.49%	19.06%	19.53%	20.60%

*Lasa Numbers are Adjusted for Exceptional Items

Margins -The above picture shows that Hester has the Highest EBITDA Margin with 33% whereas Lasa and NGL fine chem have similar margin profile of 23-25% EBITDA. Lasa has guided that the margins will continue to remain at these levels. NGL has 73% of its revenues as exports, though Lasa is in the domestic market, therefore Lasa does have scope for EBITDA Margins Improvement.

Lasa can improve PAT margins further as it uses its free cash flow to pay off its debt, and there can be financial leverage at play here along with huge operating leverage.

ROE – Lasa has top class ROE of 28.5% (Higher than the Industry) and we believe that ROE should sustain at 25%+ for the next 2-3 years atleast. There is scope for ROE to Improve further as interest cost reduces and asset turnover increases.

Growth – Lasa is the fastest growing company in the veterinary API space and we continue to believe that 25% growth is sustainable for next few years. If we look at the Industry as whole, all companies have grown at 20%+, clearly showing opportunity in this space. In the First Quarter of 2018, the company has grown revenues at a whopping 48% and PBT Increased 64%.

Company Name	D/E	Market Cap	EV	EV/EBITDA	Market Cap/Sales
LASA	1.43	319	443	9.7	1.6
NGL Fine Chem	0.35	201	219	8.7	2.0
Sequent	0.36	3019	3335	31.6	3.4
Hester Bioscience	0.52	805	856	20.8	6.5

Valuation in this business depends on 4 mains factors

1) Margins 2) Exports 3) API or Formulation or Vaccines 4) Growth & ROE

Margins - Lasa’s EBITDA Margins are 23%, which is above that of sequent at 11% which is the closest competitor according to the Management. Hester which has the Highest Margin of 33% trades at 20x EV/EBITDA. We at Stallion Asset believe that Lasa will do sales of 260 Crores in FY2018 and 23% EBITDA Margin i.e. EBITDA of 60 Crores. The Company if continues to have similar EV/EBITDA of 10x, it will be valued at 600 Crores of EV/EBITDA Minus 100 Crores of Debt = 500 Crore of market cap. The Current Market cap is 319 Crores, giving us 60% upside

Exports – All the Competitors are export focussed whereas Lasa has only 4% of its revenues from Exports. They have already secured all permissions for Exports in late 2016 and as Export Percentage of Sales Increase; the EBITDA Margins will go higher. The company has an existing capacity of 500 crores turnover i.e. the plant is operating at 40% Capacity Utilization. We believe that there is scope for valuation multiple improvement as capacity Utilization improves.

API or Formulation or Vaccines – Hester is specialized in Vaccines, Sequent gets majority of Turnover from Formulation (End Medicine) where NGL & Lasa are both API Players. Omkar Herlekar (son) in one of the concall mentioned that they will get into the Formulation business which should provide a kicker to the Valuation of Lasa if done well. He also said that there won’t be any capex needed to get into formulation.

Omkar Herlekar: Yes, definitely, after next 2-years we will be one of the largest players, in fact, we will be better than them, I am not boasting, but because of our immense backward integration from the petrochemical level, we will be much-much better than them and then they are into Formulations also. For the moment we are doing only APIs, but going ahead may be in the immediate future we are also planning to come up with Formulations division in Veterinary.

Growth & ROE - We at Stallion Asset believe that the company can grow at 25% plus for next 3 years maintaining an ROE of above 25%. LASA will be the fastest Growing veterinary drug segment with the highest ROE & deserves better valuations. The Incremental growth won’t need a lot of capex going forward and hence all cash flows would be used to pay off debts which give us financial leverage as interest cost will come down.

Conclusion - Lasa is at the beginning of a growth cycle and immense wealth is created in these growth cycles as with revenue growth and growth in profits, there will be increase in valuations. They have a established Product & Market with an opportunity to scale. The company trades at 12 Times FY2018 Earnings which looks cheap compared to its peers who trade at 15-50x. The Entire Industry is growing at 20% plus and we believe growth of Lasa of 25% Plus is sustainable for next 2-3 years. The Risk is the Promoter risk & we believe that the upside can 1-2X in next 2 years whereas downside can be 10-20% if promoter risk is triggered. The company has guided for 500 Crores of Revenue by 2020, but this is not our base case as the management historically has been very optimistic in its forecast. We believe it's a good bet where if the story plays out, we should make 100-150% in next 1-1.5 years.

Analyst Position- Amit Jeswani and Family have Positions. (Taken Small position for Omkar Demerger. Disclosed in Query Desk)

Analyst Disclosures : No positions

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