

Laurus Synthesis Private Limited

August 04, 2022

Ratings

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	298.50	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Assigned
Short-term bank facilities	22.00	CARE A1+ (A One Plus)	Assigned
Total bank facilities	320.50 (₹ Three hundred twenty crore and fifty lakh only)		

Details of facilities in Annexure-1

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Laurus Synthesis Private Limited (LSPL) derive strength from the financial and strategic support from the parent, i.e, Laurus Labs Limited (Laurus) (rated CARE AA; Stable and CARE A1+), their growing presence in the Contract Development & Manufacturing Organisation (CDMO) segment and the geographically-diversified customer base. The ratings also factor in the considerable improvement in the total operating income (TOI) and the healthy profitability margins of LSPL during FY22 as against losses during the previous years. Furthermore, Laurus, apart from providing unsecured loans to LSPL, has also extended corporate guarantee (CG) to its existing bank facilities. These strengths are further augmented by LSPL's well equipped manufacturing facilities and research and development (R&D) facilities.

The ratings are, however, constrained by the proposed debt-funded capex for setting up new research & development (R&D) plant and new manufacturing units, the exposure to regulatory risk and foreign exchange fluctuation risk.

The rating also remains sensitive to any variation in the credit profile of Laurus.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Ability of the company to scale up the operations along with maintaining profitability margins

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decrease in TOI below ₹ 90 crore and PBILDT margin below 30% in future years
- Any regulatory hurdle impacting TOI of the company

Detailed description of the key rating drivers

Key rating strengths

Experienced parent company and promoters:

LSPL is a wholly-owned subsidiary of Laurus. Laurus was incorporated in the year 2005 and commenced its operations from November 2007. It is into active pharmaceutical ingredients (APIs), formulations, CDMO and biologics manufacturing and has a presence across regulated and non-regulated markets, including US, Canada, European Union, China, South Africa and Australia. The promoter and Whole-time Director & CEO of Laurus, Dr Satyanarayana Chava, has over three decades of experience in the pharmaceutical industry and oversees the technical aspects of operation, including R&D, process development, etc.

Krishna Chaitanya, director at LSPL, leads the synthesis and ingredients divisions of Laurus and has worked in multiple areas viz. strategy, skill workshops and marketing within the Indian pharma market. Krishna Chaitanya has completed PGP MFAB from Indian School of Business, Hyderabad, and has done a master's degree in Mechanical Engineering from North Carolina State University, USA and Bachelor's Degree in Mechanical Engineering from BITS Pilani, Dubai. Before joining Laurus, he was associated with Dr Reddy's Laboratories Ltd.

Narasimha Rao DVL, director at LSPL, is SVP – synthesis at Laurus. Narasimha Rao DVL is associated with Laurus since September 2007. He holds a master's degree in chemistry and has 28 years of experience in analytical and process development, synthesis chemistry.

Sita Ramaiah Chagarlamudi, director at LSPL, is SVP - finance at Laurus. Sita Ramaiah is associated with Laurus since August 2007. He is a qualified Chartered Accountant and has more than 20 years of experience in Treasury, Financial reporting, MIS and Taxation.

Narasimha Rao Chava, director at LSPL, is SVP – human resource at Laurus. Narasimha Rao Chava is associated with Laurus since March 2007. He holds a master's degree in arts and has more than 25 years in the field of administration and Human Resources functions.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Diversified geographical presence across different products/services: LSPL operates in multiple geographies like India, US and Europe. LSPL offers CDMO services, supporting drug development and manufacturing programs of global pharmaceutical and biotech companies. With the upcoming dedicated R&D facility, LSPL would also scale up its R&D services for innovator companies going forward. The breakup of revenue from different products/services of LSPL is as follows:

₹ crore

Particulars	FY21	FY22
Sale of API, intermediaries and conversion	15.12	6.19
Sale of traded goods	0.50	29.95
Contract research services	-	54.91
Others	0.01	0.14
Total	15.63	91.19

Strategic importance of LSPL for Laurus:

Strengthening Laurus' position in the CDMO segment is a part of the growth trajectory charted out by the Laurus management. LSPL was created by Laurus to increase focus on CDMO segment. Revenue contribution from CDMO segment for Laurus has seen an increasing trend for the last five years. The revenue growth of Laurus in FY22 was driven by 77% y-o-y growth in CDMO segment. It contributed ~19% to Laurus' consolidated revenue which is approximately ₹900 crore. Laurus has entered into a new CDMO multi-year partnership with leading global lifesciences company for niche APIs. The dedicated R&D facility and two manufacturing units which are under construction would provide scale and flexibility for this division. Furthermore, going forward all the new CDMO orders of Laurus would be executed by LSPL.

Key rating weaknesses

Exposure to regulatory risk and competition from other established companies:

The company is exposed to regulatory risk with its revenue coming from developed countries. Besides, the pharmaceutical industry is highly regulated in most of the developed countries and requires various approvals, licenses, registrations and permissions for business activities. The approval process for a new product registration is complex, lengthy and expensive. The time taken to obtain approval varies by country but generally takes from six months to several years from the date of application. The company faces competition in the domestic as well as regulated markets that it operates.

Ongoing project risk:

The company is setting up four projects which include a dedicated R&D facility at Hyderabad and three manufacturing units at Vizag (Unit 2,3 & 4). Civil works are in progress for R&D center and Unit 2 & 4, whereas for unit 3 land has been acquired and construction will start later. The estimated capex for the three ongoing projects is approximately ₹ 610 crore which is proposed to be funded through term loan of ₹ 200 crore, customer advances, internal accruals, inter corporate loan and equity contribution from parent company based on requirement. The company has received sanction letter for major part of the said term loan. Furthermore, Laurus has infused ₹68.22 crore in LSPL as on March 31, 2022 as inter corporate loan, part of which has been utilised towards construction of the said projects. The said units are expected to come online between FY24 and FY25 and contribute to TOI thereafter. Considering the project to be in nascent stage, LSPL is exposed to the project risk.

Liquidity: Strong

The GCA of the company was ₹43.77 crore in FY22 and is expected to improve further in the medium term with increase in scale of production. It is expected that the company would be able to meet its term debt obligations of ₹14 crore during FY23 comfortably. The average utilisation of fund-based limits for the past 12 months ending June 2022 was minimal. Furthermore, comfort can be derived from its parent being Laurus, which has been infusing funds to LSPL as and when required, apart from extending CG to its debt facilities.

Analytical approach

Standalone, factoring in linkages with the parent company.

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial ratios – Non-financial sector](#)

[Liquidity analysis of Non-financial sector entities](#)

[Rating outlook and Credit watch](#)

[Pharmaceutical](#)

About the company

LSPL, a wholly owned subsidiary of Laurus, incorporated in May 2020 is a CDMO supporting drug development and manufacturing programs of global pharmaceutical and biotech companies. It has two facilities in India (Hyderabad and Visakhapatnam) along with a team of experienced scientists which are involved in drug development programs from the early phase development to commercial manufacturing. LSPL is currently constructing one R&D facility at Hyderabad and two units at Visakhapatnam. It has also purchased one more land parcel adjacent to the upcoming units as LSPL.

Brief Financials (₹ crore)	March 31, 2021 (A)*	March 31, 2022 (A)	Q1FY23
Total operating income	15.63	91.63	NA
PBILD	-7.64	60.39	NA
PAT	-12.88	31.26	NA
Overall gearing (times)	NM	6.74	NA
Interest coverage (times)	NM	6.08	NA

A: Audited, NA: Not Available, NM: Not Meaningful

*The company was incorporated in May 2020

Status of non-cooperation with previous CRA:

Not applicable

Any other information:

Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	Jan 2025	238.50	CARE AA-; Stable
Fund-based - LT-Cash credit	-	-	-	-	60.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	20.00	CARE A1+
Non-fund-based - ST-Forward contract	-	-	-	-	2.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term loan	LT	238.50	CARE AA-; Stable				
2	Fund-based - LT-Cash credit	LT	60.00	CARE AA-; Stable				
3	Non-fund-based - ST-BG/LC	ST	20.00	CARE A1+				
4	Non-fund-based - ST-Forward contract	ST	2.00	CARE A1+				

*Long term/Short term

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities - Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Non-fund-based - ST-Forward contract	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings Limited (CARE Ratings) has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us**Media contact**

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Naveen Kumar Dhondy
Phone: 8886097382
E-mail: dnaveen.kumar@careedge.in

Relationship contact

Name: Ramesh Bob Asineparthi
Phone: +91 90520 00521
E-mail: ramesh.bob@careedge.in

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