Laurus Bio Private Limited

July 06, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	150.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Assigned
Total bank facilities	**150.00 (₹ One hundred and fifty crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Laurus Bio Private Limited (LBPL) derives strength from the financial and strategic support from the parent, ie, Laurus Labs Limited (Laurus) (rated CARE AA; Stable), the long-term presence in the biologics industry, and the geographically-diversified customer base. LBPL specialises in precision fermentation and recombinant deoxyribonucleic acid (DNA) technology, and as such, has a relatively concentrated set of products. In addition, LBPL offers precision fermentation expertise as a contract development and manufacturing organisation (CDMO) service to novel protein companies and bio-manufacturers. The rating also factors in the considerable improvement in the total operating income (TOI) during FY20-FY22 and the healthy profitability margins during FY21 and FY22 as against losses during the previous years. Furthermore, Laurus, apart from providing unsecured loans to LBPL, has also extended corporate guarantees (CGs) to its existing bank facilities. These strengths are further augmented by LBPL's accredited manufacturing facilities and well-equipped research and development (R&D) facilities.

The rating is, however, constrained by the concentration of revenue in terms of products, the therapeutic segments and customers, the proposed debt-funded capex for capacity addition, 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 operations along with maintaining or improving its profitability margins.

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

- Decrease in the TOI below ₹100 crore and the Profit Before Interest, Lease rentals, Depreciation and Taxation (PBILDT) margin below 20% in future years.
- Any regulatory hurdle impacting the revenue of the company.

Detailed description of the key rating drivers

Key rating strengths

Experienced parent company and promoters: LBPL is a subsidiary of Laurus. Laurus was incorporated in 2005 and commenced its operations from November 2007. It is into active pharmaceutical ingredients (API), formulations, CDMO and biologics manufacturing and has a presence across regulated and non-regulated markets, including the US, Canada, the European Union, China, South Africa, and Australia. The promoter and Whole time Director & CEO of Laurus, Dr Satyanarayana Chava, who is the chairman of LBPL, has over three decades of experience in the pharmaceutical industry and oversees the technical aspects of operation, including R&D, process development, etc.
Ravi Kumar Venkata Vantaram, Executive Director and CFO of Laurus, a Fellow member of the Institute of Cost Accountants of India (formerly ICWAI), who is a director at LBPL, has more than three decades of experience in finance, information technology (IT), human resources (HR), and supply chain. His knowledge in dealing with mergers and acquisitions (M&As) and joint venture (JV) management in the global context has helped Laurus emerge as a global pharmaceutical player.
Subramani Ramachandrappa, Managing Director, LBPL, an Engineer and MBA (ISB), is an entrepreneur with 20+ years of experience in biotech innovation and product development and large-scale biomanufacturing.

Healthy profitability margins and growth in TOI: The company operates in a niche segment, with healthy profitability margins. The PBILDT margin of the company stood at 33.09% in FY22 (PY FY21: 13.13%). The margin improved in FY22 owing to an increased contribution from the CDMO business. The TOI of the company is on a growth trajectory; in FY22, it stood at ₹100.28 crore (PY FY21: ₹51.03 crore). The addition of the Tumkur unit has aided the revenue from the CDMO business and a consequent increase in the TOI in FY22.

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

Diversified geographical presence in different segments: LBPL operates in multiple geographies such as India, the US, the Organisation for Economic Co-operation & Development (OECD) countries, etc. The revenue from the US business was 46% of the TOI in FY22 (PY: 28%), which was predominantly the CDMO business. LBPL specialises in precision fermentation and recombinant DNA technology, and as such, has a relatively concentrated set of products. In addition, LBPL offers precision fermentation expertise as a CDMO service to novel protein companies and bio-manufacturers. The company has a current fermentation capacity of 180 kilolitre (kL), which is expected to increase to 1 million litre upon completion of the expansion project. The proposed project is in the planning phase and the management expects the unit to come online in FY24 and to contribute to the TOI from FY25.

Key rating weaknesses

Product concentration risk: LBPL specialises in precision fermentation and recombinant DNA technology, and as such, has a relatively limited set of products. In addition, LBPL offers precision fermentation expertise as a CDMO service to novel protein companies and bio-manufacturers. However, after the commencement of commercial operations from the Tumkur unit in FY22, the CDMO services started contributing substantially to the TOI of the company. With the addition of the proposed unit in FY24, the company is expected to further augment its capacity, from 0.18 million litre to 1 million litre, and diversify its products and services portfolio.

Ongoing project risk: The company is planning to set up an additional unit, which is expected to increase the fermentation capacity to 1 million litre. The project cost is estimated to be ₹90 crore and is proposed to be funded through a debt of ₹70 crore, with a debt-to-equity ratio of 3.5:1. The company is in the process of raising a term loan for the same. The proposed project is in the planning phase and the management expects the unit to become operational in FY24 and to contribute to the TOI from FY25.

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 developed countries and requires various approvals, licenses, registrations, and permissions for business activities. The approval process for 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. Any delay or failure in getting approvals for a new product launch could adversely affect the business prospects of the company. The company faces competition in the domestic as well as regulated markets that it operates in.

Liquidity: Strong

The company is expected to generate gross cash accruals (GCA) of ₹25-30 crore y-o-y in the medium term. The GCA of the company was ₹28.49 crore in FY22. CARE Ratings Limited (CARE Ratings) expects the company to be able to meet its term debt obligations of ₹14 crore during FY23 comfortably. The average utilisation of the fund-based limits for the last 12 months ended May 31, 2022, stood moderate, at 46%, thus providing the necessary cushion in times of exigency. Furthermore, comfort can be derived from its parent being Laurus, which has been infusing funds 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
Financial ratios – Non-financial sector
Liquidity analysis of non-financial sector entities
Rating outlook and credit watch
Pharmaceutical
Factoring linkages parent sub JV group

About the company

LBPL, formerly known as Richcore Lifesciences Private Limited (RLPL), a subsidiary of Laurus, is an integrated research-driven biomanufacturing organisation, with over 15 years of experience in precision fermentation and recombinant DNA technology. The company manufactures animal-origin-free recombinant proteins, growth factors, and cell-culture media supplements, which cater to the unique requirements of various industries such as stem cells and regenerative medicine, vaccines and biological drugs, cultured meat, and cell-culture media manufacturing. In addition, LBPL offers precision fermentation expertise as a CDMO service to novel protein companies and bio-manufacturers across the healthcare, food, nutrition, personal care, and bio-based materials markets. The company's services span across the microbial precision fermentation value chain, from clone development, strain engineering, bio-process development, and scale-up to large-scale commercial manufacturing. As on March 31, 2022, Laurus holds a 76.60% stake in LBPL.

Brief Financials (Consolidated) (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23
TOI	4,831.22	4,946.02	NA
PBILDT	1,569.24	1,434.08	NA
PAT	983.82	832.22	NA
Overall gearing (times)	0.63	0.57	NA
Interest coverage (times)	23.02	14.01	NA

A: Audited; NA: Not available

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
Term Loan-Long term	-	-	-	Jun 2026	25.00	CARE AA-; Stable
Fund-based - LT-Cash credit	-	-	-	-	25.00	CARE AA-; Stable
Term Loan-Long term	-	-	-	Proposed	100.00	CARE AA-; Stable

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.	Term Loan-Long term	LT	25.00	CARE AA-; Stable				
2.	Fund-based - LT-Cash credit	LT	25.00	CARE AA-; Stable				
3.	Term Loan-Long term	LT	100.00	CARE AA-; Stable				

*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.	Term Loan-Long term	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 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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