

## Laurus Labs Limited

June 22, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	2,289.56 (Enhanced from 2,158.83)	CARE AA; Stable	Reaffirmed
Short-term bank facilities	150.00	CARE A1+	Assigned
Short-term bank facilities	1,056.00 (Reduced from 1,091.00)	CARE A1+	Reaffirmed
Commercial paper (Standalone)	100.00 (Reduced from 200.00)	CARE A1+	Reaffirmed
Commercial paper (Carved out)*	100.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

\*Carved out of the sanctioned working capital limits of the company (Proposed)

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Laurus Labs Limited (Laurus) continue to derive strength from its experienced promoters having long-term presence in the pharma industry, improvement in total operating income (TOI) y-o-y during FY23 (refers to the period April 01 to March 31), significant increase in the revenue contribution from Contract Development and Manufacturing Company (CDMO or synthesis) and reputed geographically-diversified customer base. The ratings are also underpinned by stable profitability margins during FY23, comfortable capital structure and debt coverage indicators. The ratings are, however, constrained by an elongated operating cycle, concentration of revenue in terms of product and therapeutic segments and customers, ongoing capex for major addition in synthesis and bio division and for developing research and development (R&D) capability, exposure to regulatory risk and foreign exchange fluctuation risk.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Maintaining growth of 20% at total operating income level
- Sustaining the PBILDT margin above 25%

#### Negative factors

- Net debt to PBILDT going beyond 2x on sustained basis.
- Elongation of operating cycle beyond 180 days.
- Any major debt-funded capex or acquisition more than 50% of net worth.

**Analytical approach:** Consolidated; the consolidated business and financial risk profiles of Laurus and its subsidiaries/associates have been considered as these companies have financial and operational linkages. The list of subsidiaries/associates is given in Annexure-6.

#### Outlook: Stable

The Stable outlook reflects that the rated entity is likely to maintain its established market position and would have comfortable liquidity profile.

### Detailed description of the key rating drivers:

#### Key strengths

**Strong product portfolio catering to different therapeutic segments:** The company has strong product portfolio spread across Active Pharmaceutical Ingredients (API), Formulation and Synthesis. Laurus has a portfolio with more than 60 commercialised APIs with strong presence in Antiretroviral (ARV) and Oncology which put together contributed about 70% of the total API's revenue during FY23. Other APIs includes cardiovascular, diabetes and asthma products. The company has filed a total of 79 Drug Master File (DMFs) of which six DMFs were filed during FY23. The company has also filed 37 Abbreviated New Drug Application (ANDA) out of which 14 have been approved. In formulation besides ARV, company caters to therapeutic segments

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

like cardiovascular, CNS and Gastrointestinal. In synthesis company currently has more than 60 active projects which are in phase I,II and III and Contract Manufacturing (CMO).

**Accredited manufacturing facilities:** The company has a total of 11 manufacturing sites (including one R&D site) of which seven are in Vizag, two in Hyderabad and two in Bangalore. Out of 11 manufacturing facilities, seven are approved by USFDA. Some of the sites are also approved by other regulatory authorities such as ANVISA Brazil, WHO Geneva, KFDA (South Korea), PMDA (Japan) etc. The company has eight manufacturing units for API's (including R&D), one for FDF and two units are for Bio-ingredients.

**Reputed and geographically-diversified customer base:** The company has reputed and geographically-diversified customer base for both API and Formulation. In CDMO, the customer base has further diversified with the US, EU and Japan continuing to be the prime markets. During FY23, in CDMO segment, company has delivered a large order from a big pharma company by December 2022. It has also signed several new clinical stage projects with few big pharma companies. Contribution to the revenue from exports has remained stable at 71% in FY23 vis-à-vis 70% in FY22 backed by increase in API and CDMO sales. Major portion of the export sales during FY23 is streamed from US, Europe and African countries. The exports to African countries and the US are primarily finished dosages, and the exports to other parts of the world primarily constitute APIs.

**Robust growth in total operating income with stable profitability margins albeit expected to moderate going forward:** The total operating income of the company during FY23 improved by about 22.13% to ₹6,040.55 crore vis-à-vis ₹4,946.02 crore reported during FY22. The growth in revenue was driven by CDMO segment where revenue during FY23 improved by 136% to ₹2,167 crore against Rs 917 crore reported during FY22. The growth in CDMO was primarily due to delivery of a large order from a big pharma company on time and also accelerated demand from existing projects. Further, the company has witnessed a growth of about 28% in revenue from API segment. While both API and synthesis divisions grew well in FY23, the formulation segment de-grew by about 39%. The same was due to pricing pressure in ARV formulation, destocking of channel inventory and subdued demand for the product. The revenue from ARV segment is expected to improve going forward as Laurus has been selected as preferred supplier by The Global Fund for supplying ARV drugs for the period 2023-2025. The PBILDT margin, during FY23, however moderated from 28.99% in FY22 to 26.36% on account of increase in raw material costs coupled with pricing pressure.

**Comfortable capital structure and debt coverage indicators:** Capital structure of the company continued to remain comfortable as on March 31, 2023. Debt to equity ratio stood at 0.27x (0.28x as on March 31, 2022). Furthermore, overall gearing improved and was also below unity and stood at 0.53x as on March 31, 2023, as against 0.57x as on March 31, 2022. Debt risk metrics (term debt/GCA and total debt/GCA) have weakened marginally in FY23 to 0.89x and 1.77x (against 0.80x and 1.64x in FY22) due to increase in debt levels. The total term loan outstanding has increased from ₹821.31 crore in FY22 to ₹976.20 crore in FY23. The company has undertaken expansion of its capacities during FY23 and has spent about Rs 990 crore, of which about Rs 380 crore was funded by way of debt. Interest coverage parameters (PBILDT/interest and PBIT/interest) also came down to 9.64x and 7.68x during FY23 (14.01x and 11.55x during FY22) on account of decline in profitability and increase in interest cost.

**Moderate operating cycle:** Operating cycle period remained stable at 167 days as on March 31, 2023, as against 169 days for the prior year. Inventory holding period improved by about 33 days and stood at 143 days (PY: 176 days). As is the case in pharma industry, Laurus also has high inventory holding period as the company has to maintain buffer stock for validation of new products. Receivable days also improved to 88 days (PY: 98 days). The average payment period to creditors stood at 64 days as on March 31, 2023 (PY: 105 days). Further the average working capital utilisation stood moderate at 59% during FY23.

**Proven research and development (R&D) capabilities:** Laurus' Research & Development Centre spread over 10 acre is located at IKP Knowledge Park, Hyderabad. The R&D Centre houses Regulatory Affairs, IP Management, and Quality Assurance. The R&D facility is staffed by over 1050 R&D scientists in over 55 laboratories. The company incurred a total R&D spend of about ₹211 crore in FY23 (3.5% of TOI) as against Rs 202 crore (4% of TOI) spent during FY22. The R&D team focuses on projects that would generate long term revenues/profits. Further, the operational team also focuses on improving processes to expand yield and reduce waste. The R&D centre (Hyderabad) is approved by the FDA (USA), FDA (KOREA), and TGA (AUSTRALIA). The company has filed 335 patents application out of which 208 patents were granted till March 31, 2023. Furthermore, investment in ImmunoACT has allowed Laurus to promote and participate in emerging Cellular and Gene Therapy (CGT) technology.

**Key weaknesses**

**Ongoing capex partly funded through debt:** The company has spent about ₹950 crore in FY22 and ₹990 crore in FY23 for additions of capacities. During FY23, the company has increased its API capacity by about 28% (from 5840 KL in FY22 to 7480 KL in FY23) and in FY22 and FY23 the company has increased its formulation capacity by 100% from 5 bn tablets to 10 bn tablets. Further, during FY24 the company plans to incur capex to the tune of about ₹800 crore of which the major portion will go towards adding capacities in CDMO and bio division. The capex has been funded through a mix of debt and internal accruals. Successful ramp-up of these additional capacities and improvement in revenue will remain a key monitorable.

**Exposure to regulatory risk:** The company is exposed to regulatory risk with its operations centered majorly into manufacturing pharmaceutical APIs and formulations. The pharmaceutical industry is highly regulated in many other 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. Any delay or failure in getting approval for new product launch could adversely affect the business prospect of the company. Given, India's significant share in the USA's generic market, the USFDA has increased its scrutiny of manufacturing facilities and other regulatory compliance of the Indian pharma companies supplying generics drugs to the USA. Non-compliance may result in regulatory ban on products/facilities and may impact a company's future approvals from USFDA. Hence, ongoing regulatory compliance has become critical for Indian pharma companies however, for Laurus risk pertaining to regulatory compliance of USFDA is limited as the company derives less than 20% of revenue from US market.

**Foreign exchange fluctuation risk:** Laurus is exposed to foreign exchange fluctuation risk in view of large volume and high value transactions of export and import, a phenomenon common to the players in the industry. However, Laurus uses derivative instruments primarily to hedge foreign exchange. The company evaluates the impact of foreign exchange rate fluctuations by assessing its exposure to exchange rate risks. It hedges a part of these risks by using derivative financial instruments in line with its risk management policy. For Laurus, the risk gets mitigated to certain extent as the contracts have clause embedded for the exchange rate fluctuation and there is natural hedging through netting off the imports and exports to a large extent.

**Liquidity:** Strong

Laurus has been generating adequate cash accruals year on year. The company generated Gross Cash Accruals of ₹1140 crore during FY23 against the debt obligation of ₹225 crore. Furthermore, considering the cash accruals generated by the company in the past and its future business prospects, CARE Ratings Limited (CARE Ratings) expects that the company would be able to meet its total term debt obligation of about ₹215 crore in FY24 comfortably. The company has cash balance of Rs. 48.46 crore as on March 31, 2023. Furthermore, the average utilisation for the 12 months ending in March 2023 stood comfortable at about 59%, thus providing necessary cushion in terms of exigency.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** For the pharma industry the main factor of ESG affecting the sector is the social aspects like product safety and quality, human capital & development, access to healthcare. Governance remains a universal concept affecting all the sectors and geographies. Amongst the ESG factors, majority of the pharma companies seems to be focusing on product quality & safety and regulatory compliance in governance. Since these companies have exposure to different geographies, each having its own regulatory requirements which are continuously evolving, any non-compliance with regulations or scrutiny process can result in product withdrawals, recalls, regulatory action, declining sales, reputational damage, increased litigation and related expenses. It might also result in regulatory ban on products/facilities (as in the recent cases of import alerts issued by the USFDA to top pharma companies) and may impact a company's future approvals from regulators like USFDA.

In case of Laurus the company has implemented sustainability management and have also invested into green chemistry platforms such as Bio-enzyme catalysis and continuous flow chemistry. For clean energy company has acquired ~26% stake in Ethan Energy to boost captive renewable power. The company has initiated new system certification ISO 50001:2018 (energy management systems) across all its companies. During FY23, company has completed climate risk assessment study and the adaptable measures are being worked upon by the company. The company also got "BBB" rating by MSCI ESG Ratings in FY22 and FY23. All the manufacturing sites of the company are complied with the necessary regulations and are certified by the regulatory authorities.

**Applicable criteria**

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Pharmaceutical](#)

[Policy on Withdrawal of Ratings](#)

## About the company and industry

### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Founded in 2005, Laurus Labs is a research-driven pharmaceutical and biotechnology company. It is promoted by Dr C Satyanarayana. Laurus has a global leadership position in select Active Pharmaceutical Ingredients (APIs) including anti-retroviral, oncology drugs, cardiovascular, and gastro therapeutics. Laurus also offers integrated CDMO services to global innovators from clinical phase drug development to commercial manufacturing.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	4831.22	4946.02	6040.55
PBILDT	1569.24	1434.08	1592.39
PAT	983.82	832.22	793.42
Overall gearing (times)	0.62	0.57	0.53
Interest coverage (times)	23.02	14.01	9.64

A: Audited, Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

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

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

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper- Commercial Paper (Carved out)	Proposed	-	-	7-365 days	100.00	CARE A1+
Commercial Paper- Commercial Paper (Standalone)	Proposed	-	-	7-365 days	100.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	1370.00	CARE AA; Stable
Fund-based - LT-Term Loan	-	-	-	31/03/2028	919.56	CARE AA; Stable
Fund-based - ST-Working Capital Demand loan	-	-	-	-	150.00	CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	1027.00	CARE A1+
Non-fund-based - ST-Forward Contract	-	-	-	-	29.00	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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	919.56	CARE AA; Stable	-	1)CARE AA; Stable (23-Jun-22)	1)CARE AA; Stable (24-Jun-21)	1)CARE AA-; Positive (23-Mar-21) 2)CARE AA-; Stable

								(30-Jun-20)
2	Non-fund-based - ST-BG/LC	ST	1027.00	CARE A1+	-	1)CARE A1+ (23-Jun-22)	1)CARE A1+ (24-Jun-21)	1)CARE A1+ (23-Mar-21) 2)CARE A1+ (30-Jun-20)
3	Fund-based - LT-Cash Credit	LT	1370.00	CARE AA; Stable	-	1)CARE AA; Stable (23-Jun-22)	1)CARE AA; Stable (24-Jun-21)	1)CARE AA-; Positive (23-Mar-21) 2)CARE AA-; Stable (30-Jun-20)
4	Commercial Paper-Commercial Paper (Carved out)	ST	100.00	CARE A1+	-	1)CARE A1+ (23-Jun-22)	1)CARE A1+ (24-Jun-21)	1)CARE A1+ (23-Mar-21) 2)CARE A1+ (30-Jun-20)
5	Non-fund-based - ST-Forward Contract	ST	29.00	CARE A1+	-	1)CARE A1+ (23-Jun-22)	1)CARE A1+ (24-Jun-21)	1)CARE A1+ (23-Mar-21) 2)CARE A1+ (30-Jun-20)
6	Commercial Paper-Commercial Paper (Standalone)	ST	100.00	CARE A1+	-	1)CARE A1+ (23-Jun-22)	1)CARE A1+ (24-Jun-21)	-
7	Fund-based - ST-Working Capital Demand loan	ST	150.00	CARE A1+				

\*Long term/Short term.

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

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Carved out)	Simple
2	Commercial Paper-Commercial Paper (Standalone)	Simple

3	Fund-based - LT-Cash Credit	Simple
4	Fund-based - LT-Term Loan	Simple
5	Fund-based - ST-Working Capital Demand loan	Simple
6	Non-fund-based - ST-BG/LC	Simple
7	Non-fund-based - ST-Forward Contract	Simple

#### Annexure-5: Lender details

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

#### Annexure-6: List of subsidiaries/associates considered for consolidation

Name of the Company	Shareholding of Laurus as on March 31, 2023
Sriam Labs Private Limited	100%
Laurus Generics Inc., USA	100%
Laurus Holdings Limited (UK)	100%
Laurus Synthesis Private Limited	100%
Laurus Bio Private Limited	76.60%
Laurus Generics GmbH, Germany	100%
Laurus Generics SA (Pty) Ltd, SA	100%
Laurus Speciality Chemicals Pvt Ltd	100%
Immunoadoptive Cell Therapy Private Limited	27.57%
Ethan Energy India Pvt Ltd	26.00%

**Note on the 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](mailto:care@careedge.in) for any clarifications.

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