Laurus Labs Limited

June 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	804.43 (Reduced from 919.56)	CARE AA; Negative	Reaffirmed; Outlook revised from Stable
Long-term / short-term bank facilities	1,545.00 (Enhanced from 1,370.00)	CARE AA; Negative / CARE A1+	Revised from CARE AA; Stable
Short-term bank facilities	1,085.00 (Reduced from 1,206.00)	CARE A1+	Reaffirmed
Commercial paper (Standalone)	-	-	Withdrawn
Commercial paper (Carved out)*	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in long-term rating outlook for Laurus Labs Limited (Laurus) reflects the company's moderated performance in FY24, characterised by a decline in total operating income (TOI), significant reduction in profitability margins, and weaker overall debt coverage metrics. CARE Ratings Limited (CARE Ratings) anticipates that the company's overall performance in FY25 will remain subdued, with a modest improvement expected in the second half of FY25. Execution of contract manufacturing orders in H2FY25 is expected to partially restore profitability margins; however, delays in execution would remain a key rating monitorable.

Ratings are underpinned by Laurus's experienced promoters, who have a long-standing presence in the pharmaceutical industry, and its reputable, geographically diversified customer base. The company's new growth initiatives, including a joint venture with KRKA, further strengthen the ratings. The company's substantial capacities and potential for scaling up in the coming years also support ratings.

However, ratings are constrained by an elongated operating cycle, revenue concentration in specific products and therapeutic segments, ongoing debt-funded capital expenditure for significant additions in synthesis and bio divisions are expected to further weaken the capital structure. The company is also exposed to regulatory risks and foreign exchange fluctuation risks. At the request of the company, CARE Ratings has withdrawn the rating assigned to its proposed commercial paper. This instrument was not placed and there is no outstanding as on date.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Maintaining growth of 10% to 15% at TOI level.
- Sustaining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 25%.

Negative factors

- Total debt to PBILDT, going beyond 2.75x on sustained basis.
- Pressure on PBILDT margin on sustained basis.
- Elongating operating cycle beyond 190 days.
- Major debt funded capex or acquisition more than 50% of net worth.

Analytical approach: Consolidated

CARE Ratings has adopted a consolidated approach for arriving at ratings of Laurus, given the strong operational linkages among its subsidiaries. The list of companies considered for consolidation is given under Annexure-6.

Outlook: Negative

The negative outlook for Laurus reflects its moderated performance in FY24, with declining TOI, reduced profitability margins, and weaker debt coverage metrics. CARE Ratings expects subdued performance in FY25, with modest improvement in the second half. Successful execution of H2FY25 contract manufacturing orders could restore profitability margins, but delays pose significant credit risks and will be closely monitored.

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

The outlook may be revised to stable, if there is a substantial improvement in profitability margins, a reduction in operating cycle, and an improvement in the total debt to PBILDT ratio to below 2.75x.

Detailed description of key rating drivers

Key strengths

Strong product portfolio catering to different therapeutic segments

The company has a 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 75% of the total APIs revenue in FY24. Other APIs includes cardiovascular, diabetes and asthma products. The company has filed a total of 83 Drug Master File (DMFs), of which, four DMFs were filed in FY24. The company has also filed 40 Abbreviated New Drug Application (ANDA), of which, 18 have been approved. Apart from ARV in formulation, the company caters to therapeutic segments such as 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).

Reputed and geographically diversified customer base

The company has a reputed and geographically diversified customer base for API and formulation.The expansion in scale of operation in the formulations segment has resulted in addition of new customers like KRKA and other players in low-and-middle income countries (LMIC) market. In contract development manufacturing organisation (CDMO) segment, it has also signed several new clinical-stage projects with few big pharma companies. Historically, the company's revenue had been well-diversified with major portion coming from export market (~70%) however in FY24, revenue from the domestic market grew to 40% and the balance 60% was derived from export market. During FY24, new international tenders quoted for ARVs could not be tapped by Laurus but the same has been compensated by API supplies to domestic players who won those orders. In export, major portion of sales has come from the USA, Netherland and Slovenia, which contributed about 36% of total revenue and about 62% of export revenue.

Accredited manufacturing facilities

Laurus has 12 manufacturing sites, of which, eight are in Vizag, two in Hyderabad, and two in Bangalore. Of the 12 manufacturing facilities, seven are approved by the USFDA. Some sites are also approved by other regulatory authorities such as ANVISA Brazil, and WHO Geneva among others. The company has eight manufacturing units for APIs, one for FDF, six inclusive units for CDMO, and two for bio-ingredients.

Reduction in overall operating income accompanied by a decline in profit margin despite anticipating rebound

The company's TOI, in FY24, witnessed a decline of about 16.50% to ₹5,044 crore against ₹6,041 crore reported in FY23. The decline in revenue was mainly due to lower contribution from CDMO segment against previous year. In FY23, Laurus received a one-time order from a pharma giant. In the absence of such an order in FY24, the company's overall revenue declined significantly. The company nevertheless anticipated significant revenue from the CDMO segment for FY24 based on the agreement signed with innovator companies for product development and commercialisation, however, in FY24, the innovator companies have gone slow in terms of validation and filing of approval for the product, which in turn, impacted the revenue for Laurus. This revenue is expected to flow in FY25. Further, company anticipated a repeat order of FY23 from the innovator company, which did not materialize in FY24 and resulted in lower revenue from the segment. The API segment, which is the highest contributor in the company's overall revenue, declined by about 2% in FY24. Lower contribution from the API segment was offset by higher contribution from formulation segment, which contributed about 28% (FY23: 19%) of the total revenue. Moderation in revenue accompanied with high fixed cost have adversely affected the operating margins of the company. Further, company has a policy of charging off all R&D expenditure to profit and loss account (P&L) and during FY24, investments made to the tune of about Rs 69 crore into new initiatives were also charged off to P&L resulting in lower operating profits.

Proven research and development (R&D) capabilities

Laurus' Research & Development centre spread over 10 acres is at the IKP Knowledge Park, Hyderabad. The R&D Centre houses Regulatory Affairs, IP Management, and Quality Assurance. The R&D facility is staffed with over 1101 R&D scientists in over 55 laboratories. The company incurred a total R&D spend of about ₹241 crore in FY24 (~4.75% of TOI) as against ₹211 crore (3.50% of TOI) spent in FY23. The R&D team focuses on projects that would generate long-term revenues/profits. The operational team also focuses on improving processes to expand yield and reduce waste. The R&D centre (Hyderabad) recognised by the Department of Scientific and Industrial Research (DSIR) and approved by the FDA (USA), FDA (KOREA), and TGA (AUSTRALIA). The company had been consistently spending between 4-5% of its revenue towards R&D. A new R&D unit in Hyderabad is expected to be operational from September 2024.

Comfortable Capital structure and debt coverage indicators despite weakening in FY24
The company's capital structure although moderated in FY24 still remains comfortable. Debt to equity ratio stood at 0.30x as on March 31, 2024 (0.27x as on March 31, 2023). Overall gearing though moderated, remained below unity and stood at 0.66x as on March 31, 2024, as against 0.53x as on March 31, 2023. Other Debt risk metrics (term debt/gross cash accruals [GCA] and total debt/GCA) have weakened in FY24 to 2.28x and 4.94x (against 0.89x and 1.77x in FY23) due to increase in debt levels and decreased GCA. The total term loan outstanding has increased from ₹976.20 crore in as on March 31,2023 to ₹1117.76 crore as on March 31,2024. Interest coverage parameters (PBILDT/interest and PBIT/interest) also came down to 4.28x and 2.18x in FY24 (9.64x and 7.68x in FY23) considering decline in profitability and increase in interest cost.

Key weaknesses

Ongoing capex partly funded through debt
The company spent about ₹2,500 crore from FY22 to FY24 on growth capex (total capex around ₹2,750 crore). In FY23, the company increased its API capacity by about 28% (from 5960 KL in FY22 to 7675 KL in FY24) and in FY22 and FY23, the company increased its formulation capacity by 50% from 5 billion tablets to 10 billion tablets. The company has been investing through its subsidiary Laurus Synthesis for building the facility for animal health and crop protection product. These capex are partly funded through debt, which led to rise in total debt and concomitantly higher interest cost in FY24. Per the management, about 40% capacities across all divisions are yet to be meaningfully scaled up. If these capacities are scaled up then along with improvement in TOI, the benefit of operating leverage will help company improve its profitability.

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 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 across countries, but generally takes from six months to several years from the date of application. Delays or failures in getting approval for new product launch could adversely affect the company's business prospects. Given India's significant share in the USA's generic market, the USFDA has increased its scrutiny of manufacturing facilities and other regulatory compliance for 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 the USFDA. Hence, ongoing regulatory compliance has become critical for Indian pharma companies. However, for Laurus, risk pertaining to regulatory compliance of the USFDA is limited, as the company derives less than 20% of revenue from the 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 industry players. 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 part of these risks by using derivative financial instruments in line with its risk management policy. For Laurus, the risk gets mitigated to a certain extent, as contracts have a clause embedded for exchange rate fluctuation and there is natural hedging through netting off imports and exports to a large extent.

Liquidity: Adequate
Laurus has been generating adequate cash accruals year-on-year. The company generated GCA of ₹522 crore in FY24 against the debt obligation of ₹~215 crore. Considering cash accruals generated by the company in the past and its future business prospects, CARE Ratings expects that it would be able to meet its total term debt obligation of about ₹320 crore in FY25 comfortably. The company has cash balance of ~₹139 crore as on March 31, 2024, and CARE Ratings anticipates GCA to increase by about 50% in FY25 over FY24. The company is planning to incur capex of about ₹700 crore in FY25, which will be funded through debt to equity of 40:60. Average utilisation for 12-months ending in March 2024 stood comfortable at about 61%, providing necessary cushion in case 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 social aspects such as product safety and quality, human capital and development, and access to healthcare. Governance remains a universal concept affecting all sectors and geographies. Among ESG factors, majority pharma companies seem to be focusing on product quality and safety, and regulatory compliance in governance. Since these companies have exposure to different geographies, each having its own regulatory requirements, which are continuously evolving, 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 recent cases of import alerts issued by the USFDA to top pharma companies) and may impact a company's future approvals from regulators such as the USFDA.

In case of Laurus, the company has implemented sustainability management and have also invested in green chemistry platforms such as Bio-enzyme catalysis and continuous flow chemistry. For clean energy, the company acquired ~26% stake in Ethan Energy to boost captive renewable power. The company signed GHG commitment with Science Based Targets initiative (SBTi) in December 2023. The company initiated new system certification ISO 50001:2018 (energy management systems) across all its companies. The company also got "BBB" rating by MSCI ESG Ratings in FY22, FY23 and FY24. The S&P Global ESG score for the company improved from 43 in FY23 to 59 in FY24.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Non financial Sector
Withdrawal Policy
Short Term Instruments

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 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 Consolidated Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	6040.55	5044.49
PBILDT	1592.39	783.09
PAT	793.42	162.27
Overall gearing (times)	0.53	0.66
Interest coverage (times)	9.64	4.28

A: Audited, Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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)	-	-	-	-	-	Withdrawn
Commercial Paper-Commercial Paper (Standalone)	-	-	-	-	-	Withdrawn
Fund-based - LT-Term Loan	-	-	-	30/09/2029	804.43	CARE AA; Negative
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	1545.00	CARE AA; Negative / CARE A1+
Fund-based - ST-Working Capital Demand loan	-	-	-	-	150.00	CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	877.00	CARE A1+
Non-fund-based - ST-Forward Contract	-	-	-	-	58.00	CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	804.43	CARE AA; Negative	-	1)CARE AA; Stable (22-Jun-23)	1)CARE AA; Stable (23-Jun-22)	1)CARE AA; Stable (24-Jun-21)
2	Non-fund-based - ST-BG/LC	ST	877.00	CARE A1+	-	1)CARE A1+ (22-Jun-23)	1)CARE A1+ (23-Jun-22)	1)CARE A1+ (24-Jun-21)
3	Fund-based - LT/ ST-Working Capital Limits	LT/ST	1545.00	CARE AA; Negative / CARE A1+	-	1)CARE AA; Stable (22-Jun-23)	1)CARE AA; Stable (23-Jun-22)	1)CARE AA; Stable (24-Jun-21)

4	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)CARE A1+ (22-Jun-23)	1)CARE A1+ (23-Jun-22)	1)CARE A1+ (24-Jun-21)
5	Non-fund-based - ST-Forward Contract	ST	58.00	CARE A1+	-	1)CARE A1+ (22-Jun-23)	1)CARE A1+ (23-Jun-22)	1)CARE A1+ (24-Jun-21)
6	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	1)CARE A1+ (22-Jun-23)	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+	-	1)CARE A1+ (22-Jun-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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-Term Loan	Simple
4	Fund-based - LT/ ST-Working Capital Limits	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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Sriram labs Private Ltd	Full	Subsidiary
2	Laurus Synthesis Pvt Ltd	Full	Subsidiary
3	Laurus Bio Pvt Ltd	Full	Subsidiary
4	Laurus Holdings Ltd	Full	Subsidiary
5	Laurus Generics Inc.	Full	Subsidiary
6	Laurus Generics GmbH	Full	Subsidiary
7	Laurus Generics SA (Pty) Ltd	Full	Subsidiary
8	Laurus Speciality Chemicals Pvt Ltd	Full	Subsidiary
9	Immunoadoptive Cell Therapy Pvt Ltd	Proportionate	Associate
10	Ethan Energy India Pvt Ltd	Proportionate	Associate

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

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About us:

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