

## Laurus Labs Limited

March 23, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	1,291.81	CARE AA-; Positive (Double A Minus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	373.20	CARE A1+ (A One Plus)	Reaffirmed
<b>Total Bank Facilities</b>	<b>1,665.01</b> <b>(Rs. One Thousand Six Hundred Sixty- Five Crore and One Lakhs Only)</b>		
Commercial Paper (Carved out)*	200.00	CARE A1+ (A One Plus)	Reaffirmed
<b>Total Short Term Instruments</b>	<b>200.00</b> <b>(Rs. Two Hundred Crore Only)</b>		

\*carved out of the sanctioned working capital limits of the company  
 Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Laurus Labs Limited (Laurus) with change in outlook from 'Stable' to 'Positive' is on account of significant improvement in the total operating income and profitability margins during 9MFY21 driven by volume sales under Formulation Dosage Forms (FDF) and Generic Active Pharmaceuticals Limited (API) such as diabetes and cardio-vascular, continued incremental demand from existing clientele in non-ARV (Anti-retroviral) segment, completion of strategic acquisitions to augment growth in formulation and synthesis division. The rating continues to derive strength from experienced promoters having long-term presence in the pharma industry, strong product portfolio with perceptible presence in ARV, Oncology and Hepatitis C therapeutic segments, reputed and geographically diversified customer base with strong flow of repeat business mitigating revenue concentration risk, healthy growth in total operating income and improvement in profitability margins during FY20 (refers to the period April 01 to March 31), comfortable capital structure and debt coverage indicators, regulatory approvals from various regulators for the manufacturing and Research and Development (R&D) facilities of Laurus and stable outlook for the pharmaceutical industry. The ratings are, however, constrained by elongated operating cycle, concentration of revenue in terms of product and therapeutic segments & customers; albeit improved as compared with previous year, ongoing capex for addition in capacity for formulations and APIs along with increased R&D capability, exposure to regulatory risk and foreign exchange fluctuation risk.

### Rating Sensitivities

*Positive Factors - Factors that could lead to positive rating action/upgrade:*

- Increase in total operating income by over 20%
- To register PBILD margins on a sustained basis over 25%.

*Negative Factors- Factors that could lead to negative rating action/downgrade:*

- Overall gearing going beyond 0.80x on sustained basis
- Elongation of operating cycle days beyond 100 days
- Any major debt funded capex or acquisition more than 0.5x of network.

### Outlook: Positive

The outlook is 'Positive' as CARE believes that Laurus will continue to benefit over the medium term from its growing scale of operations owing to new products being launched, enhanced capacities and strategic acquisitions in synthesis division leading to better profitability margins consequently better cash accruals resulting in favorable capital structure, debt coverage indicators and improved liquidity. The outlook, however, may be revised to 'Stable' if the improvement in key financial parameters of the company is substantially lower or if the same deteriorates going forward.

## Detailed description of the key rating drivers

### Key rating Strengths

#### Healthy growth in total operating income and improvement in profitability margins during FY20 and 9MFY21

During FY20, the company at consolidated level has achieved around 23.5% growth in its total operating income which stood at Rs.2,836.59 crore during FY20. The total operating income of the company improved on account of foray into formulations segment on large scale and healthy growth in synthesis and other API segments. The growth in the revenue is primarily attributable to Finished Dosages Form segments which has increased to Rs.825.3 crore in FY20 from Rs.54.6 crore in FY19. The other segment which contributed to the growth in the topline is Synthesis segment which increased by 30.71% to Rs.385.1 crore in FY20 from Rs.294.6 crore in FY19.

Thereon, during 9MFY21, the company, at consol. Level, has generated revenue of Rs.3420.72 crore (Prov.). The growth is attributable to increase in volumes in both Generic API (Active Pharmaceuticals Ingredients) and FDF (Formulation Dosage Forms) segments. The FDF segment clocked revenue of Rs.1234 crore during 9MFY21 contributing to 36% of the revenue vis-à-vis Rs.825.3 crore during the entire FY20. The FDF business growth was led by increase in volumes from Low Middle Income Countries (LMIC) markets, North America and EU.

The PBILDT margin has improved from 15.74% during FY19 to 20.10% during FY20. The profitability has increased due to change in composition of revenue from API to formulations, i.e., 75.25% and 2.38% during FY19 to 49.82% and 29.15% during FY20, respectively. Further, PBILDT% improved during 9MFY21 to 32.09% from 20.10% during FY20 and in line with PBILDT%, PAT% of the company also has improved from 9.00% during FY20 to 20.08% during 9MFY21.

#### Completion of strategic acquisition to augment growth in turnover

Laurus, as per its press release dated February 10, 2021, has acquired majority stake (74.37%) in Richcore Life Sciences Private Limited (Richcore). The cost of acquisition of 74.37% was Rs.260.24 crore and was funded through internal accruals. Richcore is a research-driven biology company having fermentation capabilities and ability in animal origin free recombinant products. These products help vaccine, insulin, stem cell-based regenerative medicine and other biopharma customers, eliminate dependency on animal and human blood derived products and in turn produce safer medicines. Laurus through this acquisition is projecting to penetrate into established enzyme segment, vaccines and become a dominant player in CDMO space in Mid-Term. Apart from this, Laurus had also acquired bulk drug manufacturing unit from Phalanx Labs Private Limited, located at Visakhapatnam, Andhra Pradesh on a slump sale basis and it would be reflected in its subsidiary, Laurus Synthesis Private Limited (LSPL) which is incorporated in May 2020.

#### Growth opportunities in Formulations and Synthesis division

During FY20, Laurus has commenced its formulations segment from unit 2 on large scale which has the capacity of manufacturing 5 billion tablets per year. The formulations segment typically has higher asset turnover and better margins as compared to the generic API business which is reflected in the current year profitability. The company is targeting both developed markets (USA, Europe and Canada) and emerging markets (Global fund tenders, WHO Tender, PEPFAR Tender, and various African In-Country Tenders). The company has cumulatively filed 26 ANDAs, 2 Para IV and 7 FTFs for North America and filed 9 dossiers in EU markets, 12 dossiers in Canada. During FY20, Laurus has launched 6 new FDF products under various therapeutic segments and are targeted to be supplied primarily to Low Middle Income Countries (LMIC) like Kenya, Tanzania, Malawi, etc. Laurus is focusing on synthesis division and revenue contribution has been increasing from this segment year on year for last 4 years. Laurus provides synthesis services to Aspen Oss B.V from unit V which was exclusively developed for it.

#### Experienced management and approved manufacturing facilities

Laurus was promoted by Dr Satyanarayana Chava (Whole time Director & CEO) who has over 30 years of experience in the pharmaceutical industry and oversees the technical aspects of operation including R&D, process development, etc. Dr Satyanarayana is supported by a team of experienced personnel.

Dr C V Lakshmana Rao (Executive Director) is one of the promoters of the company and has been associated with the company for more than a decade. He has over 24 years of experience in quality control, quality assurance and regulatory affairs. He has been involved in formulating and executing the core strategies of the company.

Mr Ravi Kumar Venkata Vantaram (ED and CFO; Fellow member of Institute of Cost Accountants of India formerly ICWAI) has more than three decades of experience in finance, information technology, HR and supply chain. His knowledge in dealing with mergers and acquisitions and joint venture management in the global context has helped Laurus emerge as a global pharmaceutical player. Apart from above, the other directors of the company take care of various verticals having considerable experience in their respective fields.

#### Strong product portfolio catering to therapeutic segments like ARV and Oncology

Laurus has a portfolio with more than 60 commercialized APIs with strong presence in ARV, Oncology, anti-diabetic and Hepatitis C therapeutic segments. Furthermore, the company has forayed into formulation on a large scale from Unit II in FY20 resulting in major revenue being contributed from that segment, i.e., about 29% in FY20 as against about 2% during FY19. During February 2019, the company has received approval for few of its products which caters to ARV segment and consequently the commercial sales took place during FY20.

**Reputed and geographically diversified customer base with strong flow of repeat business mitigating revenue concentration risk**

The top 10 clients of the company accounted for 62.05% of the total revenue in FY20 against 65.73% during FY19 reducing the risk of revenue concentration from clients y-o-y. Laurus added new customers in Low Middle Income Countries market due to significant developments in formulations segment during FY20. Existing customers in the anti-retroviral and oncology such as Mylan Laboratories Ltd, Aurobindo Pharma Ltd and Nacto Pharma Limited continue to contribute to significant revenue. During the year, the revenue from domestic market has declined from 53% in FY19 to 35% in FY20. The decline is due to lower offtake of Efavirenz in South Africa eventually resulting in lesser requirements from domestic players who in turn supply to African markets. Further, the revenue from export market has increased from 47% during FY19 to 65% during FY20. Major portion of export sales is streamed from Africa and European markets. Exports to Japan, China and USA have increased in FY20 compared with FY19. Exports to Africa and USA are primarily finished dosages and exports to other parts of the world primarily constitute APIs.

**Comfortable capital structure and debt coverage indicators**

Capital structure of the company continued to remain comfortable as on March 31, 2020. Debt to equity has remained below unity and remained stable at 0.15x as on March 31, 2020 (0.23x as on March 31, 2019). Furthermore, overall gearing was also below unity and stood at 0.68x as on March 31, 2020 as against 0.73x as on March 31, 2019. During FY20, no new term loans were availed and one term loan has been prepaid. Furthermore, debt risk metrics (term debt/GCA and total debt/GCA) significantly improved to 0.62x and 2.80x in FY20 (against 1.36x and 4.36x in FY19) owing to increase in the GCA levels of the company. Interest coverage parameters (PBILDT/interest and PBIT/interest) have also improved to 6.36x and 4.27x during FY20 (4.10x and 2.24x in FY19) on account of healthy profitability and fixed finance costs.

**Proven research and development (R&D) capabilities:**

Laurus' Research & Development Centre spread over 10 acre is located at ICICI Knowledge Park, Hyderabad. The R&D Centre houses Regulatory Affairs, IP Management, and Quality Assurance. The R&D facility is staffed by over 800 R&D professionals (around 24% of the total employee strength) in over 55 laboratories. The company incurred a total R&D spend of Rs.160.2 crore in FY20 (5.7% of TOI) compared with Rs.165.90 crore in FY19 (7.4% of TOI). During 9MFY21, the company incurred Rs.134 crore (3.9%) on R&D. The company has filed 282 patents application out of which 141 patents were granted as on December 31, 2020. The company has filed 61 DMF's as on December 31, 2020. Further, the company has completed 16 new API product validations in FY20 and received USFDA approvals for few products in ARV therapeutic segment during FY20. During the year Laurus has received EIR from USFDA for unit II and Unit IV.

**Key Rating Weaknesses****Ongoing capex for addition in capacity for formulations and APIs along with increased R&D capability**

The company has also proposed to capex of Rs.1200 crore spread across two years i.e. FY21 nad FY22 for in order to support the available order book and for the future increase in demand. Out of the said capex about 35% will be invested in expanding the formulation capacities, about 40% to be invested in expanding the APIs capacities, about 10% to be invested in creating facilities to treat effluents and on generating power for in house consumption. This will help to reduce the cost of treating effluents and also reduce the power cost for the increased capacities. The balance capex will be invested for creating common facilities, R&D and also investing in increasing the capacities to meet the contract manufacturing business requirements.

**Moderate operating cycle:**

Laurus has moderate operating cycle period which has improved to 146 days during FY20 as against 161 days during FY19. The improvement in operating cycle is attributable to reduction in collection period from 110 days to 104 days in FY20 and increase in creditor days from 68 to 88 days in FY20. The inventory holding period was 130 days in FY20 as against 120 days in FY19. Laurus has high inventory holding period as the company has to maintain buffer stock for validation of new products and R & D process apart from regular inventory requirement for production of drugs. Average utilization of fund-based limits including CP (Rs.200 crore outstanding as on June 22, 2020) for past 12 months ending December 2020 stood moderate at 63.99%.

**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, 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.

**Exposure to regulatory risk**

The company is exposed to regulatory risk as 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.

**Liquidity: Strong**

Laurus has been generating strong cash accruals year-on-year and the same has been increasing with change in business dynamics. The GCA of the company has improved significantly from Rs.259 crore during FY19 to Rs.427.30 crore during FY20. The same further improved to Rs.838.34 crore during 9MFY21. The low overall gearing provides adequate head room for raising

additional funds which the company has availed by way of enhancement of working capital limits by Rs.200 crore thus providing necessary financial flexibility. Considering the cash accruals generated by the company during FY20 and 9MFY21 and factoring the capex towards expansion of the capacity in its manufacturing facilities, the company is expected to meet its debt obligations on time comfortably.

**Analytical approach:** Consolidated; the consolidated business and financial risk profiles of Laurus Labs Limited (Laurus) and its subsidiaries, namely, Sriam Labs Private Limited, Laurus Generics Inc. (USA) Laurus Holdings Limited (UK), Laurus Synthesis Private Limited and Laurus Generics SA (Pty) Limited have been considered as these companies are subsidiaries of Laurus and have financial and operational linkages. Laurus has also extended unconditional and irrevocable corporate guarantee to the bank facilities of Sriam Labs Private Limited.

#### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[Rating Methodology- Pharmaceutical Sector](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology- Manufacturing Companies](#)

[Financial Ratios- Non-Financial Sector](#)

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

[Rating Methodology: Consolidation](#)

#### About the Company

Incorporated in September 2005, Laurus is promoted by Dr C Satyanarayana, Chief Executive Officer (CEO) of the company. In FY08, the company entered into a strategic partnership with Aptuit (Singapore) P Ltd. (ASPL), subsidiary of Aptuit Inc. a US-based drug development Services Company. Consequent to the strategic partnership, the name of the company was changed to Aptuit Laurus P Ltd. effective July 2007. In February 2012, ASPL sold 32% of its stake in Laurus to Fidelity Growth Partners India (FGPI). Consequent to the stake sale, the company has been renamed to Laurus Labs Pvt. Ltd. During October 2014, Warburg Pincus has also acquired part stakes held by Fidelity and a few other promoter associates. Further, in December 2016, the company has successfully completed the IPO post which the name of the company is changed to Laurus Labs Limited. Laurus has acquired 100% stake in one of the group companies, Sriam Labs Limited (SLL) as on November 01, 2016, at a consideration price of Rs.20.99 crore.

Laurus is led by qualified and experienced promoters and efficient managerial personnel, who have extensive knowledge and insight of the global generic pharmaceutical business environment. The company operates in three business lines — Generics APIs, Generics Finished Dosage Forms (FDFs) and Synthesis/Ingredients. The company is engaged into manufacturing of APIs for Anti-Retroviral (ARVs), Oncology, Cardiovascular, Anti-Diabetics, Anti-Asthma, and Gastroenterology. Company develops and manufacture oral solid formulations, provide Contract Research and Manufacturing Services (CRAMS) and Contract Development and Manufacturing Organization (CDMO) to global pharmaceutical companies. The company also has dedicated R&D team for developing processes and products to create a diverse range of medicines. Company has six manufacturing facilities in Visakhapatnam and a kilo lab facility in Hyderabad, which have received approvals from WHO, US FDA, PMDA, NIP Hungary, KFDA, ANVISA, JAZMP – Slovenia, EU (Germany), COFEPRIS and BfArM.

Brief Financials (Consol.) (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2296.70	2836.59
PBILDT	361.56	570.24
PAT	93.76	255.27
Overall gearing (times)	0.73	0.68
Interest coverage (times)	4.10	6.36

A: Audited

**Status of non-cooperation with previous CRA: NA**

**Any other information: NA**

**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 for this company:** Annexure 4

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	December, 2024	451.81	CARE AA-; Positive
Non-fund-based - ST-BG/LC	-	-	-	362.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	840.00	CARE AA-; Positive
Non-fund-based - ST-Forward Contract	-	-	-	11.20	CARE A1+
Commercial Paper-Commercial Paper (Carved out)	-	-	-	200.00	CARE A1+

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	451.81	CARE AA-; Positive	1)CARE AA-; Stable (30-Jun-20)	1)CARE AA-; Stable (13-Jun-19)	1)CARE AA-; Stable (06-Jul-18)	1)CARE AA-; Stable (05-Jul-17)
2.	Non-fund-based - ST-BG/LC	ST	362.00	CARE A1+	1)CARE A1+ (30-Jun-20)	1)CARE A1+ (13-Jun-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (05-Jul-17)
3.	Fund-based - LT-Cash Credit	LT	840.00	CARE AA-; Positive	1)CARE AA-; Stable (30-Jun-20)	1)CARE AA-; Stable (13-Jun-19)	1)CARE AA-; Stable (06-Jul-18)	1)CARE AA-; Stable (05-Jul-17)
4.	Commercial Paper-Commercial Paper (Carved out)	ST	200.00	CARE A1+	1)CARE A1+ (30-Jun-20)	1)CARE A1+ (13-Jun-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (19-Jan-18) 2)CARE A1+ (05-Jul-17)
5.	Non-fund-based - ST-Forward Contract	ST	11.20	CARE A1+	1)CARE A1+ (30-Jun-20)	1)CARE A1+ (13-Jun-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (05-Jul-17)

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – NA****Annexure 4: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Carved out)	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Non-fund-based - ST-BG/LC	Simple
5.	Non-fund-based - ST-Forward Contract	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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