

Laurus Labs Limited

June 23, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	2,158.83 (Enhanced from 1,930.64)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short-term bank facilities	1,091.00 (Enhanced from 473.20)	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	3,249.83 (₹ Three thousand two hundred forty-nine crore and eighty-three lakh only)		
Commercial paper	200.00	CARE A1+ (A One Plus)	Reaffirmed
Commercial paper (Carved out)*	100.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	300.00 (₹ Three hundred crore only)		

Details of instruments/facilities in Annexure-1.

*To be carved out of the working capital limits.

Detailed 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, significant increase in the revenue contribution from Formulation Dosage Forms (FDF), Contract Development and Manufacturing Company (CDMO or synthesis) and biologics, reputed and geographically diversified customer base with strong flow of repeat business mitigating revenue concentration risk, stable total operating income (TOI) and strong profitability margins during FY22 (refers to the period April 01 to March 31), 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 addition in capacity for FDF and synthesis divisions, active pharmaceutical ingredients (APIs) and for developing research and development (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:

- Maintaining growth of 20% at TOI level.
- Sustaining the PBILDT margin above 30%.

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

- Overall gearing level going beyond 0.80x on a sustained basis.
- Elongation of the operating cycle beyond 180 days.
- Any major debt-funded capex or acquisition more than 0.5x of net worth.

Detailed description of the key rating drivers

Key rating strengths

Nominal growth in TOI and moderation in profitability margins: During FY22, the company at consolidated level achieved a nominal growth of 2.4% in its TOI from ₹4,831 crore to ₹4,946 crore. The revenue growth of the company was driven by 13% and 77% y-o-y growth in formulations and CDMO segment, respectively. However, the TOI was constrained in 22% y-o-y reduction in the revenue from APIs segment. The PBILDT margin reduced but remained strong at 28.99% in FY22 from 32.48% in FY21. This reduction was due to increase in the cost of certain raw materials and high cost of logistics during the COVID-19 crisis. Laurus is focusing on backward integration for reducing the dependency on Chinese markets for imports of the raw materials and the same would aid in improving the profitability margins in the future.

The dip in revenue contribution from anti-viral being compensated by growth in FDF and CDMO segments: The revenue contribution from anti-viral segments has reduced considerably to 25% during FY22 from 38% during FY21. However,

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

the company has still exhibited moderate overall growth in the TOI by about 2% during FY22 on account of better performance aided by FDF and CDMO segments. In FY22, FDF and CDMO segments have exhibited y-o-y growth of 13% and 77%, respectively. Improved sales in the developed markets in FY22 as compared with FY21 led by portfolio expansion is driving the growth in the FDF segment. The company has signed up for MPP license for Pfizer anti-COVID pill, Paxlovid, to increase the broad access in LMIC markets. The company has cumulatively filed 30 abbreviated new drug applications (ANDAs) in the US, with 14 PARA IV filings and 10 FTF opportunities, out of which the company has received approvals for 11 ANDAs whereas it has received tentative approvals for further 11 ANDAs. The revenue contribution from synthesis division has been increasing y-o-y for last five years. Laurus provides major synthesis services to Aspen Oss B.V from unit V, which was exclusively developed for it. The company has entered into a new CDMO multi-year partnership with one of the leading global lifesciences companies for niche APIs. Apart from this, the company is also setting up a dedicated R&D centre for the synthesis division at Genome Valley, Hyderabad, which is expected to be completed by end of FY23.

Experienced management and approved manufacturing facilities: Laurus is promoted by Dr Satyanarayana Chava (whole-time director and 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 25 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, human resource (HR) and supply chain. His knowledge in dealing with mergers and acquisitions and joint venture (JV) management in the global context has helped Laurus emerge as a global pharmaceutical player.

Strong product portfolio catering to different therapeutic segments: Laurus has a portfolio with more than 60 commercialised APIs with strong presence in ARV, oncology, anti-diabetic, cardiovascular and proton pump inhibitor therapeutic segments. FDF contribution to the total revenue of the company increased to 38% in FY22 from 35% in FY21. The company is carrying out expansion of unit 2, and the same is expected to be completed by June 2022. With completion of this expansion, the company can manufacture additional 4 billion units thus doubling the FDF division's capacity to 10 billion tablets per year. Similarly, the CDMO segment of the company is also expanding and is expected to contribute more to the company's revenues going forward.

Reputed and geographically diversified customer base with strong flow of repeat business mitigating sustainability of revenue risk: The company has a reputed and geographically diversified customer base for both API and FDF. In CDMO, the customer base has further diversified with the US, EU and Japan continuing to be the prime markets. The company has entered into a new multi-year partnership with one of the leading global lifesciences companies for niche APIs. Apart from above, Laurus also has decent orders in hand with scheduled delivery during the current year. Contribution to the revenue from exports increased to 70% in FY22 from 65% in FY21 backed by increase in FDF and CDMO sales. Major portion of the export sales is streamed from African countries and the US. The exports to African countries and the US are primarily finished dosages, and the exports to other parts of the world primarily constitute APIs.

Comfortable capital structure and debt coverage indicators: The overall capital structure of the company has remained comfortable as on March 31, 2022. The debt to equity ratio stood at 0.28x as on March 31, 2022 (0.25x as on March 31, 2021). Furthermore, overall gearing was also below unity and stood at 0.57x as on March 31, 2022, as against 0.63x as on March 31, 2021. The minor weakening of the debt to equity ratio can be attributed to increase in the term loan as on March 31, 2022. The company availed two new term loans, one from HDFC Bank (₹200 crore for capex reimbursement) and one from SBI New York (₹195 crore for unit 2, 3 and 4 expansion). Debt risk metrics (term debt/gross cash accruals [GCA] and total debt/GCA) have weakened marginally in FY22 to 0.80x and 1.64x as against 0.51x and 1.27x in FY21 due to increase in the debt levels. The interest coverage parameters (PBILD/interest and profit before interest and tax [PBIT]/interest) also came down to 14.01x and 11.55x during FY22 (23.02x and 20.09x during FY21) on account of reduction in profitability and increase in the interest cost.

Proven R&D capabilities: Laurus' R&D 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 790 R&D professionals (around 24% of the total employee strength) in over 55 laboratories. The company incurred a total R&D spend of ₹202 crore in FY22 (4% of TOI) compared with ₹184 crore in FY21 (4% of TOI). The R&D team focuses on projects that would generate long-term revenues/profits. Furthermore, the operational team also focuses on improving processes to expand yield and reduce waste. The R&D centre (Hyderabad) is recognised by the Department of Scientific and Industrial Research (DSIR)

and approved by the FDA (USA), FDA (KOREA), and TGA (AUSTRALIA). The company has filed applications of 315 patents, out of which 184 patents were granted till March 31, 2022. The company has filed 73 drug master files (DMFs) till March 31, 2022.

Key rating weaknesses

Ongoing capex for addition in capacity for formulations, APIs and for developing R&D capability: The company has proposed capex of about ₹1,700 crore to be carried out during FY23 and FY24 in phased-wise manner in order to meet the future increase in demand. The proposed capex will be a mix of greenfield and brownfield projects in all the segments that the company operates. Out of the said capex of about ₹1,700 crore, the company proposes to avail term loan of ₹300 crore during FY23, and the balance is proposed to be funded through internal accruals and advances from the customers. Although the capex of the company is modular in nature, it saps majority of its internal accruals generated during the year and increases its reliance on the term debt.

Elongation in operating cycle: The operating cycle period stretched to 169 days during FY22 as against 122 days during FY21. The inventory holding period deteriorated to 176 days in FY22 as against 141 days in FY21. Laurus has high inventory holding period as the company has to maintain buffer stock for validation of new products. Furthermore, in FY22, the inventory holding is relatively on a higher side due to higher work-in-progress (WIP) inventory and finished stock inventory. However, considering the supply chain issues experienced by the pharmaceutical industry, the company holding higher inventory would fare well in case of any adversity. Furthermore, the average working capital utilisation stood moderate at 62% during FY22.

Foreign exchange fluctuation risk: Laurus is exposed to the 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 the 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. Apart from above, the ability of the company to continue to observe the regulatory and current good manufacturing practice (CGMP) standards without receiving any critical observations from regulatory authorities are viewed critically from the business and credit risk point of view.

Liquidity: Adequate

Laurus has been generating adequate cash accruals y-o-y. The GCA of the company marginally reduced from ₹1,168.58 crore in FY21 to ₹1,080.91 crore in FY22 due to reduction in the profit after tax levels. Furthermore, considering the cash accruals generated by the company during recent past and future business prospects, it is expected that the company would be able to meet its term debt obligations of ₹226 crore during FY23 comfortably. Furthermore, the company has cash balance of ₹87.40 crore as on March 31, 2022. Additionally, in order to increase the liquidity in the system, the company has standby facility of commercial paper of ₹200 crore. Average utilisation of fund-based limits for past 12 months ending March 2022 stood moderate at 62%, thus providing necessary cushion in terms of exigency.

Analytical approach

Consolidated; the consolidated business and financial risk profiles of Laurus and its subsidiaries (as mentioned in the below table) have been considered, as these companies are subsidiaries of Laurus and have financial and operational linkages. The list of subsidiaries considered for consolidation is provided as Annexure-6.

Applicable criteria

[Consolidation](#)

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

[Manufacturing companies](#)

[Pharmaceutical](#)

[Policy on default recognition](#)

[Rating outlook and credit watch](#)

[Short-term instruments](#)

About the company

Incorporated in September 2005, Laurus is promoted by Dr C Satyanarayana, Chief Executive Officer (CEO) of the company. 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 four business lines — Generics APIs, Generics Finished Dosage Forms (FDFs), Synthesis and Biologics. The company has a dedicated R&D team for developing processes and products to create a diverse range of medicines. The 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 (Consolidated) (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)
Total operating income	4,831.22	4,946.02
PBILDT	1,569.24	1,434.08
PAT	983.82	832.22
Overall gearing (times)	0.63	0.57
Interest coverage (times)	23.02	14.01

A: Audited

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	-	-	-	November 2026	683.83	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	1052.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	1475.00	CARE AA; Stable
Non-fund-based - ST-Forward Contract	-	-	-	-	39.00	CARE A1+
Commercial paper-Commercial paper (Standalone)	Proposed	-	-	-	200.00	CARE A1+
Commercial paper-Commercial paper (Carved out)	Proposed	-	-	-	100.00	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	683.83	CARE AA; Stable	-	1)CARE AA; Stable (24-Jun-21)	1)CARE AA-; Positive (23-Mar-21) 2)CARE AA-; Stable (30-Jun-20)	1)CARE AA-; Stable (13-Jun-19)
2	Non-fund-based - ST-BG/LC	ST	1052.00	CARE A1+	-	1)CARE A1+ (24-Jun-21)	1)CARE A1+ (23-Mar-21)	1)CARE A1+ (13-Jun-19)

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
							2)CARE A1+ (30-Jun-20)	
3	Fund-based - LT-Cash credit	LT	1475.00	CARE AA; Stable	-	1)CARE AA; Stable (24-Jun-21)	1)CARE AA-; Positive (23-Mar-21) 2)CARE AA-; Stable (30-Jun-20)	1)CARE AA-; Stable (13-Jun-19)
4	Commercial paper-Commercial paper (Carved out)	ST	100.00	CARE A1+	-	1)CARE A1+ (24-Jun-21)	1)CARE A1+ (23-Mar-21) 2)CARE A1+ (30-Jun-20)	1)CARE A1+ (13-Jun-19)
5	Non-fund-based - ST-Forward contract	ST	39.00	CARE A1+	-	1)CARE A1+ (24-Jun-21)	1)CARE A1+ (23-Mar-21) 2)CARE A1+ (30-Jun-20)	1)CARE A1+ (13-Jun-19)
6	Commercial paper-Commercial paper (Standalone)	ST	200.00	CARE A1+	-	1)CARE A1+ (24-Jun-21)	-	-

*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	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	Non-fund-based - ST-BG/LC	Simple
6	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 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.

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

Name of the Company	Shareholding of Laurus as on March 31, 2022
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%
Immunoadoptive Cell Therapy Private Limited	18.94%

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