

## Laurus Labs Limited

June 24, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	1,930.64 (Enhanced from 1,291.81)	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA-; Positive (Double A Minus; Outlook: Positive)
Short Term Bank Facilities	473.20 (Enhanced from 373.20)	CARE A1+ (A One Plus)	Reaffirmed
<b>Total Bank Facilities</b>	<b>2,403.84</b> <b>(Rs. Two Thousand Four Hundred Three Crore and Eighty- Four Lakhs Only)</b>		
Commercial Paper	200.00	CARE A1+ (A One Plus)	Assigned
Commercial Paper (Carved out)*	100.00 (Reduced from 200.00)	CARE A1+ (A One Plus)	Reaffirmed
<b>Total Short Term Instruments</b>	<b>300.00</b> <b>(Rs. Three 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 revision in the ratings assigned to the bank facilities of Laurus Labs Limited (Laurus) is on account of significant improvement in the total operating income and profitability margins during FY21 (refers to the period April 01 to March 31) driven by volume sales under Formulation Dosage Forms (FDF) and Generic Active Pharmaceuticals Limited (API) such as anti-retro-viral and oncology segment, generation of healthy cash accruals providing the adequate liquidity comfort, 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 ratings 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 the sustainability of revenue risk, comfortable capital structure and improved 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, ongoing capex for addition in capacity for formulations, APIs and for developing 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 total operating income level
- Sustaining the PBILDT margin above 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 150 days
- Any major debt funded capex or acquisition more than 0.5x of network.

### Detailed description of the key rating drivers

#### Key rating Strengths

##### **Healthy growth in total operating income and profitability margins**

During FY21, the company at consolidated level has achieved around 70.50% growth in its total operating income which stood at Rs.4836.42 crore. The revenue growth of the company was driven by robust demand for several key products. The growth in revenue is primarily attributable to FDF segments which increased to Rs.1664 crore in FY21 from Rs.825 crore in FY20. The other segment which contributed to the growth in the topline is Synthesis segment which increased to Rs.519 crore in FY21 from Rs.385 crore in FY20. Anti-viral segment which primarily comprises ARV and HEP-C APIs exhibited a Y-o-Y growth of 70% from Rs.1086 crore in FY20 to Rs.1842 crore in FY21. The other API segment also displayed healthy growth of 56% in FY21.

The PBILDT margin has improved by 1245 bps from 20.10% during FY20 to 32.55% during FY21. PBILDT margin improved during FY21 despite withdrawal of export incentives by the government and high logistics cost during the Covid-19 crisis. The main reason for improvement of profitability is due to change in composition of revenue, better product mix and increase in revenue across all divisions. Formulations segments are deeply backward integrated giving the company further cost advantage. Thus, all the above factors have aided in improving the PBILDT% during FY21 and in line with PBILDT%, PAT% of the company also has increased by 1134 bps from 9.00% during FY20 to 20.34% during FY21.

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

Laurus in order to diversify its product lines has forayed into enzymatic solutions by way of acquiring 79.21% equity stake in Richcore Life Sciences Private Limited (Richcore) which 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. The cost of acquisition of 79.21% was Rs.260.44 crore and was funded through internal accruals. Post-acquisition the name of Richcore is rechristened to Laurus Bio Private Limited (Laurus Bio). 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**

In FY20, Laurus has commenced full-fledged operations at its formulations segment from unit 2 which has the capacity of manufacturing 5 billion tablets per year. Thereon, the company is targeting both regulated markets (USA, Europe and Canada) and emerging markets. As on March 31, 2021, the company has cumulatively filed 27 ANDAs, 2 Para IV and 7 FTFs for North America and filed 9 dossiers in EU markets, 12 dossiers in Canada. During FY21, Laurus has completed FDF capacity debottlenecking and completed validation for 2 additional products which are part of CDMO expansion in Europe. Apart from debottlenecking, Laurus has undertaken capex during FY22 which is expected to enhance the capacity of formulations segment to 10 billion tablets per year.

Laurus has generated about 11% of its revenue from synthesis division and revenue contribution has been increasing from this segment for last 5 years. Since majority of the products handled in Ingredients division are single product – single customer which is akin to a Contract Development and Manufacturing Organization (CDMO), the Ingredients Business Unit has been merged with Synthesis. Laurus provides major synthesis services to Aspen Oss B.V from unit V which was exclusively developed for it. During FY21, Laurus has about 50 active projects in the CDMO division when compared to 40 active projects in FY20.

#### **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.

#### **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, cardiovascular and Hepatitis C therapeutic segments. Furthermore, the company has forayed into formulation on a large scale from Unit II in FY20 onwards resulting in major revenue being contributed from that segment, i.e., about 35% in FY21 as against about 29% during FY20.

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

In FY21, the top 7 customers contributed to 53% of the revenue against 45% in FY20 (47% in FY19). During FY20 & FY21, Laurus has added new customers which have reduced revenue concentration risk to some extent. The expansion in scale of operation in formulations segment has resulted in addition of new customers in LMIC market. Mylan Laboratories, Macleods Pharmaceuticals Limited, Aurobindo Pharma continue to contribute significant revenue to Laurus in ARV and Oncology segment. Apart from above Laurus also has decent orders in hand with scheduled delivery during the current year which provides revenue visibility for FY22.

During the year, the revenue from domestic market has remained stable at 35% in FY20 (35% in FY20). However, in absolute terms the revenue from domestic market has improved during FY21 exhibiting a Y-o-Y growth of about 69%.

#### **Comfortable capital structure and debt coverage indicators**

Capital structure of the company, at consolidated level, continued to remain comfortable as on March 31, 2021. Debt to equity ratio stood at 0.25x as on March 31, 2021 (0.17x as on March 31, 2020). Further, overall gearing was also below unity and stood

at to 0.69x as on March 31, 2021 as against 0.62x as on March 31, 2020. The minor deterioration in the overall gearing is attributed to increase in the term loan, outstanding cash credit and LC backed creditor as on March 31, 2021. The company has availed term loan of about Rs.400 crore for partly funding the capacity expansion of Rs.708 crore. The balance funding was done through internal accruals of the company. Furthermore, debt risk metrics (term debt/GCA and total debt/GCA) have improved in FY21 to 0.51x and 1.39x (against 0.68x and 2.53x in FY20) due in increase in GCA levels in FY21. Interest coverage parameters (PBILDT/interest and PBIT/interest) have also improved to 23.10x and 20.09x during FY21 (6.36x and 4.27x in FY20) on account of improvement in profitability and reduction in interest cost.

**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 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.184 crore in FY21 (3.8% of TOI) compared to Rs.160 crore in FY20 (5.7% of TOI). 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 has filed 292 patents application out of which 150 patents were granted till March 31, 2021. The company has filed 61 DMF's till March 31, 2021. During FY21, Laurus did not undergo any inspection as same was completed in FY20 and has received EIR from USFDA against the same.

**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 Rs.1700 crore to be carried out during FY22 and FY23 in phased wise manner in order to meet the future increase in demand. Out of the said capex about 30% is proposed to be utilized for expanding the formulation capacities, about 50% for expanding the APIs capacities, about 20% on synthesis and bio divisions. Out of the said capex of about Rs.1700 crore the company proposes to avail term loan of Rs.418 crore during FY22 and the balance is proposed to be funded through internal accruals. The capex of the company although modular in nature, it saps majority of the internal accruals generated during the year and increases its reliance on the term debt.

**Moderate operating cycle**

Laurus has moderate operating cycle period which has improved to 122 days during FY21 as against 143 days during FY20. While the collection period of the company has improved to 80 days in FY21 as against 101 days in FY20; the inventory holding period has slightly deteriorated to 141 days in FY21 as against 130 days in FY20. Laurus has high inventory holding period as the company has to maintain buffer stock for validation of new products. In FY21 the inventory holding is relatively on a higher side due to higher WIP and finished stock inventory. Further the average working capital utilization stood moderate at 61% during FY21.

**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. Apart from above the ability of the company to continue to observe the regulatory and CGMP standards without receiving any critical observations from regulatory authorities are viewed critically from business and credit risk point of view.

**Liquidity: Adequate**

Laurus has been generating adequate 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.427.30 crore during FY20 to Rs.1168.58 crore during FY21. Further 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 Rs.136 crore during FY22 comfortably. Further, the company had cash balance of Rs.48.77 crore as on March 31, 2021. Additionally, in order to increase the liquidity in the system the company is proposing to place additional Rs. 200 crore commercial paper. Average utilization of fund-based limits including CP for past 12 months ending March 2021 stood moderate at 61%, thus providing necessary cushion in terms of exigency.

**Analytical approach:** Consolidated; the consolidated business and financial risk profiles of Laurus Labs Limited (Laurus) and its subsidiaries (as mentioned in annexure 5) have been considered as these companies are subsidiaries of Laurus and have financial and operational linkages.

**Applicable Criteria**

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)
[Rating Methodology - Consolidation](#)
[Financial ratios – Non-Financial Sector](#)
[Rating Methodology- Pharmaceutical Sector](#)
[Liquidity analysis of Non-financial sector entities](#)
**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 other subsidiaries such as Sriam Labs Private Limited, Laurus Generics Inc., Laurus Holdings Limited, Laurus Synthesis Private Limited, Laurus Generics GmbH and Laurus Bio Private Limited.

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), COFEPRI and BfArM.

Brief Financials (Consol.) (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	2836.59	4836.42
PBILDT	570.24	1574.44
PAT	255.27	983.82
Overall gearing (times)	0.62	0.69
Interest coverage (times)	6.36	23.10

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	-	-	April 2026	790.64	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	462.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	1140.00	CARE AA; Stable
Non-fund-based - ST-Forward Contract	-	-	-	11.20	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	-	-	-	200.00	CARE A1+
Commercial Paper-Commercial Paper (Carved out)	-	-	-	100.00	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	790.64	CARE AA; Stable	-	1)CARE AA-; Positive (23-Mar-21) 2)CARE AA-; Stable (30-Jun-20)	1)CARE AA-; Stable (13-Jun-19)	1)CARE AA-; Stable (06-Jul-18)
2.	Non-fund-based - ST-BG/LC	ST	462.00	CARE A1+	-	1)CARE A1+ (23-Mar-21) 2)CARE A1+ (30-Jun-20)	1)CARE A1+ (13-Jun-19)	1)CARE A1+ (06-Jul-18)
3.	Fund-based - LT-Cash Credit	LT	1140.00	CARE AA; Stable	-	1)CARE AA-; Positive (23-Mar-21) 2)CARE AA-; Stable (30-Jun-20)	1)CARE AA-; Stable (13-Jun-19)	1)CARE AA-; Stable (06-Jul-18)
4.	Commercial Paper-Commercial Paper (Carved out)	ST	100.00	CARE A1+	-	1)CARE A1+ (23-Mar-21) 2)CARE A1+ (30-Jun-20)	1)CARE A1+ (13-Jun-19)	1)CARE A1+ (06-Jul-18)
5.	Non-fund-based - ST-Forward Contract	ST	11.20	CARE A1+	-	1)CARE A1+ (23-Mar-21) 2)CARE A1+ (30-Jun-20)	1)CARE A1+ (13-Jun-19)	1)CARE A1+ (06-Jul-18)



6.	Commercial Paper- Commercial Paper (Standalone)	ST	200.00	CARE A1+	-	-	-	-
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**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.	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: List of subsidiaries**

Name of the Company	Shareholding of Laurus as on March 31, 2021
Sriam Labs Private Limited	100%
Laurus Generics Inc., USA	100%
Laurus Holdings Limited (UK)	100%
Laurus Synthesis Private Limited	100%
Laurus Bio Private Limited	79.20%
Laurus Generics GmbH, Germany	100%
Laurus Generics SA (Pty) Ltd, SA	100%

**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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#### Disclaimer

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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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