Laurus Labs Limited [Erstwhile Laurus Labs Private Limited]

March 03, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	754 (reduced from 1032)	**CARE A+; Positive (Single A Plus; Outlook: Positive)**	Reaffirmed
Short-term Bank Facilities	338.20	**CARE A1+ (A One Plus)**	Revised from CARE A1 (A One)
Total Facilities	**1092.20 (Rs. One Thousand Ninety Two crore and Twenty Lakh only)**		
Short-term Commerical paper (Proposed)@	100.00	**CARE A1+ (A One Plus)**	Revised from CARE A1 (A One)

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

Detailed Rationale & Key Rating Drivers

The revision in the short-term rating of Laurus Labs Limited (LLL) derives strengths from improved liquidity position on account of cash inflows from Initial Public Offering (IPO) coupled with trade advance from new customers. The ratings also factor in prepayment of term debt and capex invested. The ratings continue to factor in experienced promoters having long-term presence in the pharma industry, healthy product portfolio with perceptible presence in Antiretroviral (ARV), Oncology and Hepatitis therapeutic segments, reputed customer base, significant improvement in total operating income coupled with improved profitability and profitability margins in FY16, improved and moderate leverage position, regulatory approvals from various countries for the manufacturing and Research and Development (R&D) facilities of LLL and favorable outlook for the pharmaceutical industry. The ratings are, however, constrained by elongated operating cycle period, product concentration risk, ongoing capex risk, exposure to regulatory risk and foreign exchange fluctuation risk. The ability of the company to maintain healthy growth in revenue and profitability, diversification of the revenue profile, addition of new products to its portfolio and successful completion of ongoing projects are the key rating sensitivities.

Outlook: Positive

The outlook is ‘Positive’ with LLL strategically increasing its presence in high margin therapeutic segments particularly Hepatitis-C and Oncology and development of new products resulting in growth of scale and improvement in key financial parameters. The outlook may be revised to ‘Stable’ if the company is unable to achieve the growth as envisaged.

Detailed description of the key rating drivers

Key Rating Strengths

Improved liquidity profile on account of cash inflows from IPO coupled with additional cash inflows from customer advance

Laurus Labs Limited has listed on December 19, 2016 on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The company has received Rs. 284.75 crore (33% of networth as on March 31, 2016) from the IPO issue out of which Rs.226.29 crore was utilised towards repayment of term loans and balance towards general corporate purpose.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Furthermore, during 9MFY17, LLL has also received trade advance from customers. This has resulted into improved liquidity and capital structure of the company during 9MFY17.

Experienced promoters having long withstanding in pharma industry

The company was incorporated in 2005 and commenced its operations from November 2007. The promoter of LLL, Dr. Satyanarayana Chava (CEO) has over 28 year's 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.

Strong product portfolio with perceptible presence in ARV, Oncology and Hepatitis-C therapeutic segments albeit product concentration risk

LLL has a portfolio with 59 commercialised APIs with strong presence in ARV (71% of the revenue in FY16), Hepatitis-C (11% of the revenue in FY16) and Oncology (8% of the revenue in FY16) therapeutic segments. The top 7 products of the portfolio accounted for 80% in FY16 against 84% in FY15.

Significant improvement in total operating income coupled with improved profitability and margins

The Total Operating Income (TOI) of the company has improved significantly by 32% to Rs.1794.54 crore in FY16. While the PBILDT margin has improved to 22%, the PAT margin has improved to 8% during FY16 over FY15 on account of lower capital charge expenses for FY16. During 9MFY17, LLL has achieved total operating income of Rs.1445.95 crore with PAT of Rs.128.50 crore. The company has reported the PBILDT margin of 22.12% with PAT margin of 8.87%.

Moderate capital structure with improved leverage position and comfortable debt coverage indicators

LLL has moderate capital structure with weakened debt to equity of 0.64x as on March 31, 2016 (against 0.54x as on March 31, 2015); while improved overall gearing of 1.24x as on March 31, 2016 (against 1.39x as on March 31, 2015). Furthermore, during 9MFY17, the company has prepaid term loan of Rs. 226.59 crore from the net proceeds of IPO resulting in comfortable debt to equity of 0.13x and overall gearing of 0.65x as on December 31, 2016.

Successful completion of planned expansion

During FY16, the company incurred a total capex of around Rs.332 crore, funded by term loan and internal accruals. Furthermore, during 9MFY17, LLL has sucessfully completed capex to the tune of Rs.250 crore funded through customer advance and internal accruals.

Key Rating Weaknesses

Elongated operating cycle albeit improved

LLL has elongated operating cycle period of 159 days during FY16 however improved from 168 days in FY15 backed by improved collection period of the company to 96 days during FY16 coupled with improved inventory holding period to 125 days in FY16. Stretched operating cycle is largely on account of 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.

Foreign exchange fluctuation risk

LLL 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 LLL, 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 with its operations centered majorly into manufacturing pharmaceutical APIs and formulations (yet to start sales from formulations). In India, the government also controls the prices of pharmaceutical products through the drug price control order (DPCO) under price control mechanism. Besides, 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.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Rating Methodology-Manufacturing Companies

Financial ratios – Non-Financial Sector

Rating Methodology- Pharmaceutical Sector

About the Company

Incorporated in September 2005, LLL 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 LLL 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 August 2016, name of the company is changed to Laurus Labs Limited and subsequently in the month of December 2016, the company got listed on BSE and NSE.

The company is primarily engaged in research and development with a strong presence in anti-retroviral (ARV), oncology and hepatitis therapeutic segments. The company is also into manufacturing of APIs in Oncology and other therapeutic segments and is one of the leading suppliers of APIs in the ARV therapeutic segment. Headquartered in Hyderabad, Telangana, the company has manufacturing facilities in Visakhapatnam, Andhra Pradesh and R&D centre in Hyderabad, Telangana.

LLL 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.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years: Please refer Annexure-2

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Mr Vidhyasagar L
Tel: 040-40102030
Mobile: +918801880184
Email: vidhya.sagar@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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	-	-	March 31, 2021	154.00	CARE A+; Positive
Non-fund-based - ST-BG/LC	-	-	-	302.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	600.00	CARE A+; Positive
Non-fund-based - ST-Forward Contract	-	-	-	36.20	CARE A1+
Commercial Paper	-	-	-	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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	154.00	CARE A+; Positive	1)CARE A+ (14-Jul-16)	1)CARE A (07-Aug-15)	1)CARE A (29-Jul-14)	1)CARE A- (10-Jul-13)
2.	Non-fund-based - ST-BG/LC	ST	302.00	CARE A1+	1)CARE A1 (14-Jul-16)	1)CARE A1 (07-Aug-15)	1)CARE A1 (29-Jul-14)	1)CARE A2+ (10-Jul-13)
3.	Fund-based - LT-Cash Credit	LT	600.00	CARE A+; Positive	1)CARE A+ (14-Jul-16)	1)CARE A (07-Aug-15)	1)CARE A (29-Jul-14)	1)CARE A- (10-Jul-13)
4.	Commercial Paper	ST	100.00	CARE A1+	1)CARE A1 (14-Jul-16)	1)CARE A1 (07-Aug-15)	1)CARE A1 (29-Jul-14)	-
5.	Non-fund-based - ST-Forward Contract	ST	36.20	CARE A1+	1)CARE A1 (14-Jul-16)	1)CARE A1 (08-Sep-15)	-	-

CONTACT

Head Office Mumbai

Mr. Amod Khanorkar
Mobile: + 91 98190 84000
E-mail: amod.khanorkar@careratings.com

Mr. Saikat Roy
Mobile: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691