

Laurus Labs Limited

January 19, 2018

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Short-term – Commercial paper *	200.00 (enhanced from Rs 100 crore)	CARE A1+ (A One Plus)	Reaffirmed
Total	200.00 (Rupees Two hundred crore only)		

*carved out of the sanctioned working capital limits of the company

Detailed Rationale & Key Rating Drivers

The rating assigned to the commercial paper of Laurus Labs Limited (Laurus) continues to take into consideration growth in total operating income coupled with healthy profitability level in FY17 (refers to the period April 01 to March 31) and H1FY18, comfortable leverage position, addition of new products during FY17 and reduction in dependence on external borrowings for on-going capex. The ratings also continue to factor in ease in liquidity position on account of inflows from Initial Public Offering (IPO) coupled with trade advance from new customers, prepayment of term debt, 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, 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 improvement as compared to previous year, on-going capex risk, exposure to regulatory risk and foreign exchange fluctuation risk. The ability of the company to maintain healthy profitability margin and growth in revenue, diversification of the revenue profile, addition of new products to its portfolio and successful completion of on-going projects are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Healthy growth in total operating income coupled with improvement in profitability (consolidated)

Laurus has witnessed a growth of 8% in the total operating income during FY17 over FY16 backed by increase in business with addition of new products, taking up new agreements with various customers and commenced operation for unit 5. In line with the total operating income, the profit levels and profitability margins of the company have also improved during FY17. The total income in H1FY18 grew by 9.64% to Rs 1,044 crore.

Comfortable capital structure

Capital structure of the company remained comfortable with debt to equity and overall gearing below unity as on March 31, 2017. Improved capital structure was owing to prepayment of long term loans and equity infusion through IPO resulting in improved tangible net worth as on March 31, 2017. Furthermore, debt risk metrics and interest coverage parameters have also improved during the FY17. In addition, trade advance from customers which has resulted into improved liquidity position of the company during the year.

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

Experienced and long track record of promoters in the pharma industry

The company was incorporated in 2005 and commenced its operations from November 2007. The promoter of Laurus, Dr. Satyanarayana Chava (CEO) has over 28 years of experience in the pharmaceutical industry and oversees the technical aspects of operations 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

Laurus has a portfolio of 59 commercialised APIs (more than 90 APIs manufactured) with strong presence in ARV, Hepatitis C and Oncology therapeutic segments. Y-o-Y increase in product portfolio has resulted in reduction in revenue concentration from top products, however, still remained high.

Reputed customer base with strong flow of repeat business mitigating revenue concentration risk

Laurus has been generating higher revenue from existing customers in the anti-retroviral and oncology, however, there has been reduction in revenue concentration from top clients y-o-y. The company enjoys dependable relationships with major global and Indian pharma majors, with customers which have been associated with Laurus for more than 3 years accounting for over 70-80% of the revenue in FY17.

Proven research and development (R&D) capabilities

Laurus has incurred a total R&D spend of Rs. 124 crore in FY17 compared to Rs 91.00 crore in FY16. 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 205 patents application out of which 41 patents were granted as on March 31, 2017. The company developed total of 90 APIs with total of 59 commercialised products as on March 31, 2017. The company has filed 4 DMFs during FY17, taking the total number of DMFs to 39 as on March 31, 2017. In addition, Laurus has filed 3 ANDAs with US FDA, one dossier with WHO.

Successful completion of planned expansion

During FY17, Laurus has successfully completed the planned capex funded through customer advance and internal accruals. During the year, capex for manufacturing facility- unit 5 dedicated towards production of APIs and intermediates commenced operation in December 2016. Further, the company has also completed expansion of formulation block for unit 2 in 2016.

Key Rating Weaknesses***Elongated operating cycle***

Laurus has elongated operating cycle period during FY17 as against during FY16 owing to high collection period due to change in proportion of sales mix to customers and extended credit period to prime customers and 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.

On-going project risk

Laurus is undertaking capacity expansion projects in various therapeutic segments aggregating Rs 285 crore in FY18 for formulations, ARV, and Oncology. The capex is proposed to be funded through proposed term loan of Rs. 100 crore and balance from internal accruals. Timely completion of the same with minimal cost overrun would be critical.

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 in India; the prices of pharmaceutical products are regulated by government 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: Consolidated

Applicable Criteria

[Criteria for Short Term Instruments](#)

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

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

[Sector Specific Methodologies - Pharmaceutical](#)

[Rating Methodology-Manufacturing Companies](#)

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, Fidelity Growth Partners India (FGPI) has acquired 32% stake in Laurus. 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. Laurus has acquired 100% stake in one of the group companies, Sriam Labs Pvt Limited as on November 01, 2016 at a consideration price of Rs. 20.99 crore.

During FY17, Laurus has achieved a total operating income of Rs. 1,935.67 crore (Rs. 1787.65 crore in FY16) with PAT of Rs. 189.58 crore in FY17 (Rs. 132.93 crore in FY16). During H1FY18, the company has generated total income of Rs 1,044.00 crore and PAT of Rs 87.66 crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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.

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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
Commercial Paper	December 22, 2017	6.60%	March 15, 2018	100.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	259.06	CARE AA-; Stable	1)CARE AA-; Stable (05-Jul-17)	1)CARE A+; Positive (03-Mar-17) 2)CARE A+ (14-Jul-16)	1)CARE A (07-Aug-15)	1)CARE A (29-Jul-14)
2.	Non-fund-based - ST-BG/LC	ST	302.00	CARE A1+	1)CARE A1+ (05-Jul-17)	1)CARE A1+ (03-Mar-17) 2)CARE A1 (14-Jul-16)	1)CARE A1 (07-Aug-15)	1)CARE A1 (29-Jul-14)
3.	Fund-based - LT-Cash Credit	LT	700.00	CARE AA-; Stable	1)CARE AA-; Stable (05-Jul-17)	1)CARE A+; Positive (03-Mar-17) 2)CARE A+ (14-Jul-16)	1)CARE A (07-Aug-15)	1)CARE A (29-Jul-14)
4.	Commercial Paper	ST	200.00	CARE A1+	1)CARE A1+ (05-Jul-17)	1)CARE A1+ (03-Mar-17) 2)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	11.20	CARE A1+	1)CARE A1+ (05-Jul-17)	1)CARE A1+ (03-Mar-17) 2)CARE A1 (14-Jul-16)	1)CARE A1 (08-Sep-15)	-

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