CARE Ratings
Professional Risk Opinion

Laurus Labs Limited

June 13, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	1048.57 (Reduced from 1089.01)	**CARE AA-; Stable (Double A Minus; Outlook - Stable)**	Reaffirmed
Short-term Bank Facilities	313.20	**CARE A1+ (A One Plus)**	Reaffirmed
Total Facilities	**1361.77 (Rs. One Thousand Three Hundred and sixty one crore and seventy seven Lakh only)**		
Short-term –Commercial paper *	200.00	**CARE A1+ (A One Plus)**	Reaffirmed

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

Detailed Rationale

The ratings assigned to the bank facilities of Laurus Labs Limited (Laurus) continues to derive strength from experienced promoters having long-term presence in the pharmaceutical industry, strong product portfolio with perceptible presence in ARV, Oncology and Hepatitis C therapeutic segments albeit concentration of revenue towards few therapeutics and customers, reputed and geographically diversified customer base with strong flow of repeat business mitigating revenue concentration risk, comfortable capital structure and debt coverage indicators, growth opportunities in Formulations and Synthesis division, 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 also factor in healthy growth in total operating income albeit deterioration in profitability margins during FY19 (refers to the period April 01 to March 31). The ratings are, however, constrained by elongated operating cycle, decline in profitability margins, , concentration of revenue in terms of product and therapeutic segments & customers; albeit improved as compared to previous year, 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 and addition of new products are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters having long withstanding in 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 operation including R&D, process development, etc. Dr. Satyanarayana is supported by a team of experienced personnel. The company has presence across regulated and non-regulated markets including USA, Canada, European Union, China, South Africa and Australia.

Strong product portfolio with perceptible presence in ARV, Oncology and Hepatitis C therapeutic segments albeit concentration of revenue towards few therapeutics and customers:

Laurus has a portfolio with more than 50 commercialized APIs (more than 90 APIs manufactured) with strong presence in ARV, Oncology and Hepatitis C therapeutic segments. Laurus has a presence across various therapeutic segments; with majority contribution from segments like ARV, HCV and oncology. Revenue from top 7 therapeutic segments during FY19 stands at 83.26% (FY18: 87.91%).

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 66% of the total revenue in FY19 against 76% during FY18 reducing the risk of revenue concentration from clients y-o-y. However, Laurus has been generating higher revenue from existing customers in the anti-retroviral and oncology. The company enjoys dependable relationships with major global and Indian pharma majors, with customers which have been associated with Laurus for more than a decade accounting for over 65% of the revenue in FY19. During the year, the revenue from domestic market has declined from 62% in FY18 to 53% in FY19. Further, the revenue from export market has increased from 38% during FY18 to 47% during FY19.

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

Healthy growth in total operating income

During FY19 the company at consolidated level has achieved around 10% growth in its total operating income which stood at Rs.2296.70 crore during FY19. The total operating income of the company improved on account of strong demand for the products with improving generic API volumes during FY19. During FY19, company witnessed healthy growth of in the revenues from Oncology and generics FDF segments which contributed 12% to TOI. Apart from the aforementioned, revenue from the synthesis business grew significantly by 66% from Rs.154.10 crore in FY18 to Rs.255.20 crore in FY19. Improvement in the revenue from the aforementioned segments was partially offset by decline in the revenue from the Hepatitis C segment by around 29% during FY19.

Comfortable capital structure and debt coverage indicators

Capital structure of the company continued to remain comfortable as on March 31, 2019. Debt to equity has remained below unity and remained stable at 0.23x as on March 31, 2019 (0.15x as on March 31, 2018). Further, overall gearing was also below unity and stood at to 0.73x as on March 31, 2019 as against 0.71x as on March 31, 2018. During FY19, the company has availed ECB loans from HSBC amounting to Rs. 172.93 crore and Rs. 40 crore of term loans from Citi Bank to fund the ongoing capex for capacity expansion at Unit 3, 4 and 6 and regular maintenance capex. Furthermore, debt risk metrics (term debt/GCA and total debt/GCA) marginally deteriorated to 1.36x and 4.36x in FY19 (against 0.71x and 3.37x in FY18) owing to increase in the long term loans coupled with decline in GCA levels of the company. Interest coverage parameters (PBILDT/interest and PBIT/interest) have also moderated to 4.10x and 2.20x during FY19 (5.51x and 3.94x in FY18) on account of increased interest charges and lower profitability levels.

Moderate Liquidity position:

Liquidity profile of the company has remained moderate with current ratio at 1.03x as on March 31, 2019 as against 0.96x as on March 31, 2018. Total debt obligation during FY20 is about Rs. 93.01 crore and the same is to be serviced by healthy gross accr1uals expected during FY20. Further, average utilization of fund based limits including CP for past 12 months ending March 2019 stood moderate at 80.91% and the company has sufficient liquidity cushion to meet any kind of exigency.

Growth opportunities in Formulations and Synthesis division:

The company has developed FDF manufacturing capacity of 5 billion tablets per year at unit 2 with total cost of Rs. 431.00 crore. The formulations segment typically has higher asset turnover and better margins as compared to the generic API business. 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 19 ANDAs, 2 Para IV and 7 FTFs for the developed markets and has filed TLE600 & TLE400 (Tenofovir, Lamivudine, Efavirenz) combinations along with over 80 product registrations in various African & Asian Countries. Further, the company's synthesis business provides research and manufacturing services on contract basis to other pharmaceutical companies. Revenue from the synthesis segment is expected to grow on account of commencement of supply from unit 5 to Aspen.

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. 165.90 crore in FY19 (7.22% of TOI) compared to Rs. 113.5 crore in FY18 (5.42% of TOI). The company has filed 238 patents application out of which 81 patents were granted as on March 31, 2019. The company has filed 54 DMF's as on March 31, 2019. The company has received USFDA Approvals / Tentative Approvals for DLT, Tenofovir, ADL & Dolutegravir & WHO approval for Tenofovir.

Key Rating Weaknesses

Decline in profitability margins during FY19

The PBILDT margin has deteriorated from 20.94% during FY18 to 15.74% during FY19. The decline in PBILDT level of the company was primarily due to increase in major raw material costs which are being sourced from China. The Chinese government has enacted the new environmental laws to address the environmental issues. However, foreseeing the aforementioned scenario, the company had already started backward integration for production of the intermediaries. The company has identified the key raw materials/ intermediates and has already started developing the raw materials whose prices have shot up by way of backward integration in house from Q2FY19 onwards. Further, the company incurred additional cost in FY19 for FDF business on transfer of rights on profit sharing on 11 products from DRL and Rising pharma, regulatory filing costs in Europe (3 Dossiers) and regulatory filing costs in USA (8 ANDAs) which factors for moderation in profitability margins. Apart from the aforementioned reasons, the company reported a lower PBILDT level during FY19 on account of forex losses recorded by the company to the tune of Rs. 10.90 crore during FY19 owing to rupee depreciation.

Further, the company has also incurred a total R&D spend of Rs. 165.90 crore in FY19 (7.22% of TOI) compared to Rs. 113.5 crore in FY18 (5.42% of TOI) which has added to the decline in profitability of the company.

Moderate operating cycle:
Laurus has moderate operating cycle period which has improved to 155 days during FY19 as against 166 days during FY18. While the collection period of the company has remained high at 110 days in FY19 as against 108 days in FY18; the inventory holding period was 120 days in FY19 as against 121 days in FY18. 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.

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; the consolidated business and financial risk profiles of Laurus Labs Limited (Laurus) and its subsidiaries namely Sriam Labs Private Limited, Laurus Synthesis Inc., USA and Laurus Holdings Limited (UK) 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
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, 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. 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 Limited (SLL) as on November 01, 2016 at a consideration price of Rs. 20.99 crore.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2094.14	2296.70
PBILDT	438.98	361.56
PAT	167.61	93.76
Overall gearing (times)	0.71	0.73
Interest coverage (times)	5.51	4.10

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	-	348.57	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	302.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	700.00	CARE AA-; Stable
Non-fund-based - ST-Forward Contract	-	-	-	11.20	CARE A1+
Commercial Paper	-	-	-	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	348.57	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Jul-18)	1)CARE AA-; Stable (05-Jul-17)	1)CARE A+; Positive (03-Mar-17) 2)CARE A+ (14-Jul-16)
2.	Non-fund-based - ST-BG/LC	ST	302.00	CARE A1+	-	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (05-Jul-17)	1)CARE A1+ (03-Mar-17) 2)CARE A1 (14-Jul-16)
3.	Fund-based - LT-Cash Credit	LT	700.00	CARE AA-; Stable	-	1)CARE AA-; Stable (06-Jul-18)	1)CARE AA-; Stable (05-Jul-17)	1)CARE A+; Positive (03-Mar-17) 2)CARE A+ (14-Jul-16)
4.	Commercial Paper	ST	200.00	CARE A1+	-	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (19-Jan-18) 2)CARE A1+ (05-Jul-17)	1)CARE A1+ (03-Mar-17) 2)CARE A1 (14-Jul-16)
5.	Non-fund-based - ST-Forward Contract	ST	11.20	CARE A1+	-	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (05-Jul-17)	1)CARE A1+ (03-Mar-17) 2)CARE A1 (14-Jul-16)

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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