

Laurus Labs Limited

June 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	1291.81 (enhanced from 1048.57)	CARE AA-; Stable (Double A Minus; Outlook - Stable)	Reaffirmed
Short term Bank Facilities	373.2 (enhanced from 313.2)	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	1665.01 (One Thousand Six hundred and Sixty five and one 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 & Key Rating Drivers

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 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 revenue concentration risk, healthy growth in total operating income and improvement in profitability margins during FY20 (FY refers to period from April 01 to March 31), comfortable capital structure and debt coverage indicators, significant increase in revenue contribution from 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 are, however, constrained by elongated operating cycle, 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.

Rating Sensitivities

Positive factors:

- To register PBILD margins on a sustained basis over 23%.
- Maintaining operating cycle days consistently below 120 days.
- To reduce the reliance on bank borrowings and maintain the working capital limits utilization below 50% on sustained basis.

Negative factors:

- Overall gearing going beyond 0.84x on sustained basis
- To undertake any major capex or acquisition by utilizing the internal accruals from the cash flows generated thus causing strain on liquidity.

Detailed description of the key rating drivers

Key Rating Strengths

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. Apart from above the other directors of the company take care of various verticals having considerable experience in their respective fields.

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

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 and Hepatitis C therapeutic segments. Further the company has forayed into formulation on a large scale from Unit II in FY20 resulting in major revenue being contributed from that segment i.e. about 29% in FY20 as against about 2% during FY19. The company has received approval for couple of its FDF products which caters to ARV segment and consequently commercial sales took place during FY20.

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 62.05% of the total revenue in FY20 against 65.73% during FY19 reducing the risk of revenue concentration from clients y-o-y. Laurus added new customers in Low Middle Income Countries (LMIC) market due to significant development in formulations segment during FY20. Existing customers in the anti-retroviral and oncology such as Mylan Laboratories Ltd, Aurobindo Pharma Ltd and Nacto Pharma Limited continue to contribute to significant revenue. During the year, the revenue from domestic market has declined from 53% in FY19 to 35% in FY20. The decline is due to lower offtake of Efavirenz in South Africa eventually resulting in lesser requirements from domestic players who in turn supply to African markets. Further, the revenue from export market has increased from 47% during FY19 to 65% during FY20. Major portion of export sales is streamed from Africa and European markets. Exports to Japan, China and USA have increased in FY2020 compared to FY2019. Exports to Africa and USA are primarily finished dosages and exports to other parts of the world primarily constitute APIs.

Healthy growth in total operating income and improvement in profitability margins

During FY20, the company at consolidated level has achieved around 19.8% growth in its total operating income which stood at Rs.2836.59 crore during FY20. The total operating income of the company improved on account of foray into formulations segment on large scale and healthy growth in synthesis and other API segments. The growth in revenue is primarily attributable to Finished Dosage Form (FDF) segments which has increased to Rs.825.3 crore in FY20 from Rs.54.6 crore in FY2019. The year on year growth in FDF segment stood at 1412% in FY20. The other segment which contributed to the growth in the topline is Synthesis segment which increased by 30.72% to Rs.385.1 crore in FY20 from Rs.294.6 crore in FY19. Anti-viral segment which primarily comprises ARV and HEP-C APIs despite of negative growth continued to be major revenue contributor in FY20. However the other API segment showed healthy growth of 54% in FY2020.

The PBILDT margin has improved from 15.74% during FY19 to 20.10% during FY20. The profitability has increased due to change in composition of revenue from API to formulations i.e. 75.25% and 2.38% during FY19 to 49.82% and 29.15% during FY20 respectively.

Comfortable capital structure and debt coverage indicators

Capital structure of the company continued to remain comfortable as on March 31, 2020. Debt to equity has remained below unity and remained stable at 0.15x as on March 31, 2020 (0.23x as on March 31, 2019). Further, overall gearing was also below unity and stood at to 0.68x as on March 31, 2020 as against 0.73x as on March 31, 2019. During FY20 no new term loans were availed and one term loan has been prepaid. Furthermore, debt risk metrics (term debt/GCA and total debt/GCA) significantly improved to 0.62x and 2.80x in FY20 (against 1.36x and 4.36x in FY19) owing to increase in the GCA levels of the company. Interest coverage parameters (PBILDT/interest and PBIT/interest) have also improved to 6.36x and 4.27x during FY20 (4.10x and 2.24x in FY19) on account of healthy profitability and fixed finance costs.

Growth opportunities in Formulations and Synthesis division:

During FY20, Laurus has commenced its formulations segment from unit 2 which has the capacity of manufacturing 5 billion tablets per year. The formulations segment typically has higher asset turnover and better margins as compared to the generic API business which is reflected in the current year profitability. 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 26 ANDAs, 2 Para IV and 7 FTFs for North America and filed 6 dossiers in EU markets, 10 dossiers in Canada. During FY2020, Laurus has launched 6 new FDF products under various therapeutic segments and are targeted to be supplied primarily to Low Middle Income Countries (LMIC) like Kenya, Tanzania, Malwai etc. Laurus is focusing on synthesis division and revenue contribution has been increasing from this segment year on year for last 4 years. Laurus provides major synthesis services to Aspen Oss B.V from unit V which was exclusively developed for it. Laurus has incorporated new subsidiary Laurus Synthesis Private Limited in May 2020 for exclusively undertaking CRAMS business.

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. 160.2

crore in FY20 (5.7% of TOI) compared to Rs. 165.90 crore in FY19 (7.4% of TOI). The R&D team focuses on projects that would generate long term revenues/profits. Further, the operational team also focuses on improving processes to expand yield and reduce waste. 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 257 patents application out of which 116 patents were granted as on March 31st, 2020. The company has filed 60 DMF's as on March 31, 2020. Further, the company has completed 16 new API product validations in FY20 and received USFDA approvals for few products in ARV therapeutic segment during FY20. During the year Laurus has received EIR from USFDA for unit II and Unit IV.

Key Rating Weaknesses

Moderate operating cycle

Laurus has moderate operating cycle period which has improved to 146 days during FY20 as against 161 days during FY19. The improvement in operating cycle is attributable to reduction in collection period from 110 days to 104 days in FY20 and increase in creditor days from 68 to 88 days in FY20. The inventory holding period was 130 days in FY20 as against 120 days in FY19. 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 pharmaceutical industry is highly regulated in many 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.

Liquidity analysis: Strong

Laurus has been generating strong 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. 259 crore during FY19 to Rs. 427.30 crore during FY20. Its unutilized bank lines along with seeking for enhancement of working capital limits by Rs. 200 crore provides necessary financial flexibility. Considering the cash accruals generated by the company during FY20 and the estimated cash accruals for FY21 factoring the regular maintenance capex and capex towards expansion of the capacity in its manufacturing facilities the company is expected to meet its debt obligations on time comfortably.

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](#)

[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. The company is primarily engaged in research and development with a strong presence in anti-retroviral (ARV) and

oncology 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)	FY19 (A)	FY20 (A)
Total operating income	2296.70	2836.59
PBILDT	361.56	570.24
PAT	93.76	255.27
Overall gearing (times)	0.73	0.68
Interest coverage (times)	4.10	6.36

A: Audited

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	-	-	December, 2024	451.81	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	362.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	840.00	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
1.	Fund-based - LT-Term Loan	LT	451.81	CARE AA-; Stable	1)CARE AA-; Stable (07-Jun-19)	1)CARE AA-; Stable (06-Jul-18)	1)CARE AA-; Stable (05-Jul-17)
2.	Non-fund-based - ST-BG/LC	ST	362.00	CARE A1+	1)CARE A1+ (07-Jun-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (05-Jul-17)
3.	Fund-based - LT-Cash Credit	LT	840.00	CARE AA-; Stable	1)CARE AA-; Stable (07-Jun-19)	1)CARE AA-; Stable (06-Jul-18)	1)CARE AA-; Stable (05-Jul-17)
4.	Commercial Paper	ST	(200.00)	CARE A1+	1)CARE A1+ (07-Jun-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (19-Jan-18) 2)CARE A1+ (05-Jul-17)
5.	Non-fund-based - ST-Forward Contract	ST	11.20	CARE A1+	1)CARE A1+ (07-Jun-19)	1)CARE A1+ (06-Jul-18)	1)CARE A1+ (05-Jul-17)

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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