

LAURUS LABS LIMITED (REVISED)

July 06, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	1089.01 (enhanced from 959.06)	CARE AA-; Stable (Double A Minus; Outlook - Stable)	Reaffirmed
Short-term Bank Facilities	313.20	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	1402.21 (Rs. One Thousand Four Hundred and Two crore and Twenty 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, healthy product portfolio with perceptible presence in Antiretroviral (ARV), Oncology and Hepatitis therapeutic segments, reputed customer base, moderate growth in total operating income in FY18 (refers to the period April 01 to March 31), addition of new products during the year, completion of the planned capex, 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, decline in profitability margins, comfortable capital structure and debt coverage indicators though marginally deteriorated, concentration of revenue in terms of product and therapeutic segments & customers; albeit improved 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
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.

Strong product portfolio with perceptible presence in ARV, Oncology and Hepatitis C therapeutic segments:

Laurus has a portfolio with 59 commercialised APIs (more than 90 APIs manufactured) with strong presence in ARV, Oncology and Hepatitis C therapeutic segments. During FY18, Laurus has added 8 new products in their product basket. Laurus is having strong presence in ARV and Oncology therapeutic segment through its key products. During FY18, ARV has continued to remain major revenue contributor with 66% of the revenue (64% of the revenue in FY17).

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

The top 10 clients of the company accounted for 76% of the total revenue in FY18 against 75% in of the total revenue in FY17 (82% of revenue in FY16) reducing the risk of revenue concentration from clients y-o-y. However, Laurus has been generating higher revenue from existing customers for more than a decade in the anti-retroviral and oncology like Aspen Pharmacare, Mylan Laboratories, Aurobindo Pharma, Natco Pharma Limited, Sun Pharmaceutical Industries Limited, Cipla Limited.

Moderate total operating income (consolidated):

The Total Operating Income (TOI) of the company has improved by 6.92% to Rs.2094.14 crore in FY18 from Rs. 1935.67 crore in FY17. The growth in revenue is primarily driven by increase in business with addition of 8 new products belonging to Hepatitis C, Oncology, Cardiovascular, Anti-diabetic and anti-ulcer therapeutic segments in the portfolio.

Comfortable capital structure

Capital structure of the company continued to remain comfortable as on March 31, 2018. Debt to equity has remained below unity and remained stable as on March 31, 2018. Further, overall gearing was also below unity though deteriorated

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

marginally to 0.70x as on March 31, 2018 as against 0.66x as on March 31, 2017 mainly on account of increase in the debt of the company owing to the ongoing expansion capex undertaken by the company as envisaged earlier.

Proven research and development (R&D) capabilities:

The R&D centre (Hyderabad) of Laurus is 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 224 patents application out of which 57 patents were granted as on March 31, 2018. The company developed total of 90 APIs with total of 59 commercialised products as on March 31, 2018. In addition, Laurus has filed 9 ANDAs, 1 NDA and completed 6 validations as on March 31, 2018.

Successful completion of planned expansion:

During FY18, Laurus has successfully completed capex planned. The company during the year had undertaken capex for capacity expansion for Generics FDF in the formulation block and expanded capacity from 2 billion tablets per year to 5 billion. The company completed the capex for Unit 4 – synthesis and ingredients business and inaugurated it in November 2017, which boosted capacities of the Synthesis and Ingredients businesses during the year. The company also acquired the API unit of Sriam Labs Private Limited through slump sale in December 2017.

Key Rating Weaknesses

Decline in profitability margins (consolidated):

The PBILDT margin of the company declined by 126 bps to 20.96% and the PAT margins declined by 171 bps to 9.71% during FY18.

Comfortable debt coverage indicators (consolidated):

The debt risk metrics (term debt/GCA and total debt/GCA) marginally deteriorated in FY18 owing to increase in the long term loans. Interest coverage parameters (PBILDT/interest and PBIT/interest) have improved in FY18 on account of reduced interest charges.

Concentration of revenue towards few therapeutics and customers:

Laurus is having strong presence in ARV and Oncology therapeutic segment through its key products. During FY18, ARV has continued to remain major revenue contributor with 66% of the revenue (64% of the revenue in FY17). Revenue from top 7 therapeutic segments during FY18 stands at 89% (FY17: 88%).

Elongated operating cycle (consolidated):

Laurus has elongated operating cycle period during FY18 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.

Ongoing project risk:

The company is undertaking capacity expansion projects in various therapeutic segments. The projected revenues are backed by the said expansions. Hence, timely completion of the same with minimal cost overrun would be critical. The company is undertaking a capex in FY19 for formulations, ARV, and Oncology.

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 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 Private Limited (SLPL) as on November 01, 2016 at a consideration price of Rs. 20.99 crore.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1958.64	2094.14
PBILDT	435.16	438.98
PAT	190.28	167.61
Overall gearing (times)	0.66	0.70
Interest coverage (times)	4.36	5.51

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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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	July 2023	389.01	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	389.01	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)
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)
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)
4.	Commercial Paper	ST	200.00	CARE A1+	-	1)CARE A1+ (19-Jan-18) 2)CARE A1+ (05-Jul-17)	1)CARE A1+ (03-Mar-17) 2)CARE A1 (14-Jul-16)	1)CARE A1 (07-Aug-15)
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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