Gujarat Themis Biosyn Limited

July 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities (Cash Credit)	2.00	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Assigned**
Short-term Bank Facilities (Letter of Credit/Bank Guarantee)	3.00	**CARE A3 (A Three)**	**Assigned**
Total facilities	**5.00 (Rs. Five Crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Gujarat Themis Biosyn Limited (GTBL) considers improvement in operating performance of the company in the past two years post change in business model from contract manufacturing to manufacturing and sales. The ratings also derive strength from vast experience of the promoters and track record of GTBL in the pharmaceutical industry, moderate financial risk profile and capital structure, accredited manufacturing facilities, presence in niche products as well as efficient management of working capital cycle.

The above rating strengths are tempered by moderate scale of operations, customer concentration risk, its susceptibility of profitability margins to changes in key raw material prices, regulatory challenges in domestic markets as well as presence in competitive nature of Indian pharmaceutical industry.

Key Rating Sensitivities

Positive Sensitivities

- Increase in scale of operations above Rs.150 crore while maintaining operating profitability
- Improvement in non fund-based facilities utilisation below 75%.

Negative sensitivities

- Increase in overall gearing above unity owing to any major debt funded capex
- Increase in working capital cycle above 90 days.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

GTBL is actively managed by promoters of Themis Medicare Limited (TML) since 2007. Dr. Dinesh Patel who is the Executive Vice Chairman and his son Dr. Sachin Patel. Dr. Sachin Patel has MD & CEO has Ph.D in Medicinal Chemistry by qualification. He has been the recipient of several industrial accolades and under his guidance and control, GTBL has manged to overcome operational losses. Dr. Sachin Patel holds a doctorate in Biological Chemistry from Christ's college, University of Cambridge, UK. Furthermore, the promoters are supported by well qualified and experienced second tier management.

Niche product offerings

The company is engaged in manufacturing of APIs namely Rifamycin S and Rifamycin O using fermentation process. Rifamycin S is an intermediate for manufacturing drug Rifampicin and Rifamycin O is an intermediate for manufacturing drug Rifaximin. Rifamycin is used for treatment of several types of bacterial infections, including tuberculosis, Mycobacterium avium complex, leprosy, and Legionnaires' disease. Rifaximin is used for treatment of diarrhoea, irritable bowel syndrome, and hepatic encephalopathy.

As per management, very few API manufacturers in India have fermentation capabilities as it involves large capital commitment for setting up a manufacturing base resulting in entry barriers for new players.

Improved operating profitability post change in business model

Prior to FY19, company was engaged in contract manufacturing of Rifamysin S for Lupin Limited. During FY19, GTBL management decided to change business model from contract manufacturing to manufacturing and sales model. As a result, the company's operating profitability has significantly improved. The PBILDT margin improved from 22.06% in FY19 (100% contract manufacturing) to 38.58% in FY20 (14% contract manufacturing) to further 44.53% in FY21 (2% revenue from contract manufacturing).

Moderate capital structure

GTBL's overall gearing stood low at 0.19 times as on March 31, 2020. This is mainly due to low debt funded capital structure. The company's borrowing profile majorly comprises term loan for 1-3 years from customers (for procuring equipment's).

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

Term loan in FY21 pertains to unsecured loans availed from Optimum Drugs Private Limited (group company of Optrix Laboratories Private Limited, a key customer of GTBL) which would be repaid in FY22.

Efficient working capital cycle

GTBL's working capital is efficiently managed as reflected in operating cycle of 18 days as on March 31, 2020. The company's sales are order backed, leading to low inventory. Credit from suppliers is also comfortable. Any working capital gap, the company is able to fund through internal accruals. Moreover, company receives payment from major customers on timely basis. Hence, the company's fund based utilisation has remained nil for past 12 months.

Raw material sourcing and manufacturing facility

The key raw material for GTBL is Rifabutin which is sourced through domestic market. The company has long standing relationship with its suppliers thereby ensuring timely supply of key raw material. The company's manufacturing plant is in Valsad, Gujarat that is CGMP approved. GTBL has installed capacity for manufacturing 10,000 KG Rifamycin C per month and 6,000 KG Rifamycin O per month. The average capacity utilisation ranges between 60-70% p.a. There are no instances of regulatory observations as per management.

Key Rating Weaknesses

Moderate scale of operations

GTBL is a growing API player with a net operating income of around Rs.91 crore and tangible net worth of Rs.71.56 crore in FY21. However, the current scale of operations constrains company's ability to undertake large orders.

Product and customer concentration risk

GTBL derives about 70% of its revenue from e Rifamycin-S. Moreover, the company caters to only two customers i.e. Lupin Limited contributing 72% of sales and Optrix Laboratories Private Limited contributing balance 28% of sales. The company has 'take or pay' agreement with Optrix Laboratories Private Limited which is renewed annually. Hence, concentration risk is mitigated to an extent. However, any major setback in financial profile of these clients could significantly impact growth of GTBL. The company plans to onboard more customers over medium term to reduce concentration risk.

Intense competition and presence in a fragmented industry and susceptibility of profitability margins to raw material prices

GTBL's profitability margins are susceptible to raw material price volatility. Moreover, the Indian pharmaceutical industry (IPI) comprises mainly of formulations, active pharmaceutical ingredients (API) and contract research and manufacturing services (CRAMS) segments. Although the IPI has shown a healthy growth, the industry remains highly competitive. By volume, Indian companies produce about one-fifth of the global generic medicines, nearly half of which was by way of exports witnessing increasing competition.

Liquidity- Adequate

GTBL does not have any major long term loans from banks as on June 15, 2021. The company has adequate liquidity as marked by sufficient cash accruals to meet repayment obligations of Rs.9.32 crore in FY22. Moreover, GTBL's free cash and cash equivalents stood at Rs.39.40 crore as on March 31, 2021. The company does not have any major debt funded capex plan in FY22. Its fund based working capital limits amounting to Rs.2 crore have remained unutilized for the past 12 months.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology- Manufacturing companies
Rating Methodology-Pharmaceutical Sector
Financial ratios: Non-financial sector
Liquidity Analysis of Non-Financial Sector Entities

About the company:

Gujarat Themis Biosyn Limited (GTBL) was incorporated in 1981 as a joint venture between GIIC Limited and Chemosyn Private Limited and commenced production in August 1985. The company was engaged in manufacturing of Erythromycin till 1990. However, due to pricing pressure from China, the company incurred operational losses and the production of Erythromycin was discontinued. The company was subsequently taken over in June 1991 by the Yuhan Group, South Korea and Pharmaceutical Business Group (India) Ltd. (PBG); a unique consortium of five competing drug companies – Themis Medicare Ltd, Kopran Ltd, Anant & Co., Cadilla Health Care Ltd. (Zydus) and Lyka Labs Ltd. It is being actively managed by Themis Medicare Ltd since 2007. From 1991-2019, the company was engaged in manufacturing of active pharmaceutical ingredient namely Rifampicin on job work basis for Lupin Ltd. However, during FY20, the company changed its business model from job work/ contract manufacturing to manufacturing and sales model. The company is presently engaged in manufacturing of APIs namely Rifamycin S and Rifamycin O.

The company's manufacturing plant is in Valsad, Gujarat and the same is CGMP approved. The company has installed capacity for manufacturing 10,000 KG Rifamycin C per month and 6,000 KG Rifamycin O per month. The average capacity utilisation ranges between 60-70% p.a.

Brief Financials (Rs. In Crores)	FY19 (A)	FY20 (A)	FY21 (Provisional)
Total operating income	43.26	86.80	90.56
PBILDT	9.54	33.49	40.33
PAT	6.41	23.68	30.03
Overall gearing (times)	0.32	0.19	0.13
Interest coverage (times)	73.65	37.56	26.53

A-Audited

Status of non-cooperation with previous CRA: ACUITE BB-/ ACUITE A4 Withdrawn Issuer Not Co-operating as per press release dated February 08, 2021.

Any other information: Not Applicable

Rating History: 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-Long Term	-	-	-	2.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	3.00	CARE A3

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based-Long Term	LT	2.00	CARE BBB-; Stable	-	-	-	-
2.	Non-fund-based - ST-BG/LC	ST	3.00	CARE A3	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-Long Term	Simple
2.	Non-fund-based - ST-BG/LC	Simple

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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