

Gufic Biosciences Limited

March 11, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE BBB; Stable / CARE A3 (Triple B; Outlook: Stable / A Three) and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB; Stable (Triple B; Outlook: Stable) and Withdrawn
Total Bank Facilities	-		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB; Stable / CARE A3' [Triple B; Outlook: Stable / A Three] assigned to the bank facilities of Gufic Biosciences Limited (GBL) with immediate effect. Furthermore, the ratings have been withdrawn at the request of Gufic Biosciences Limited and 'No Objection Certificate' received from the lenders that has extended the facilities rated by CARE.

The reaffirmation in the ratings takes into account the vast experience of the promoters in the pharmaceutical industry, accredited manufacturing facility, diversified product portfolio, consistent operational performance with significant improvement in total operating income and profitability during FY21 and 9MFY22 (refers to period April 01, 2021 to December 31, 2021) along with comfortable capital structure and debt coverage indicators. The rating however, continues to remain tempered on account of working capital intensive operations, highly regulated industry, susceptibility of margins to any adverse movement in raw material prices and project risk.

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of the promoters in the pharmaceutical industry

The promoters of the company have been in the pharmaceutical industry since 1971, through incorporation of Gufic Pharma Private Limited (GPPL). Gufic group is in the business of manufacturing and marketing injectable products since late 1970s. The promoters are supported by qualified professionals heading various verticals with adequate and relevant experience in their respective fields.

Accredited manufacturing facility

Gufic group, manufactures APIs and formulations at its Navsari facility. The facility is EU GMP certified injectable manufacturing unit, catering to general and hormonal products for the Indian domestic, regulated, and semi regulated markets internationally. GBL conducts manufacturing of its products mainly from Unit I and Unit II at Navsari plant. Both the units have necessary regulatory approvals and there are no instances of adverse regulatory observations/actions. Unit I caters to the requirements of domestic market and Unit II caters to export markets.

Diversified product portfolio

The product portfolio of the company is well diversified, marked by its presence in key therapeutic segments (under bulk drugs/API division) such as anti-fungal, anti-bacterial, anti-infective, anti-inflammatory, and anaesthetic. GBL's lyophilization product portfolio includes antibiotic, antifungal, cardiac, infertility, antiviral, skin care solutions, and proton pump inhibitor solutions. The product portfolio can be divided mainly under two segments which includes pharma and bulk drugs. Pharma segment includes manufacturing and trading of Tablets, capsules, ointment, syrup/suspension powder, injection and lotion etc. GBL will continue to benefit from its well-established customer base.

Consistent operational performance with significant improvement in total operating income and profitability during FY21 and 9MFY22

The company's scale of operations improved by 35.17% to Rs. 491.08 crore in FY21 from Rs. 363.30 crore in FY20. Further, in 9MFY22, the TOI has further improved significantly to Rs. 620.03 crore.

During FY21, the company's profit margin also improved from 13.80% in FY20 to 17.78% in FY21 owing to improvement in scale of operations along with savings in employee cost, traded goods cost and various other expenses viz. manufacturing and selling expenses. Besides savings in costs, the company has been able to improve its margins as it has obtain various certifications and approvals for its manufacturing facilities and diversify its product portfolio through continuous research and development.

The operating margin further improved to 18.91% in 9MFY22. Furthermore, the PAT margin stood at 9.01% in FY21 and 12.19% in 9MFY22. Led by higher accretion of profits to reserves, the tangible net worth base improved significantly and stood at Rs. 172.99 crore as on March 31, 2021 vis-à-vis Rs. 95.30 crore as on March 31, 2020.

Comfortable capital structure and debt coverage indicators

Increase in tangible net worth due to plough back of profits generated during the year along with lower reliance on external debt led to improvement in the capital structure as seen from overall gearing of 0.36 times as on March 31, 2021 vis-à-vis 1.51 times

¹ Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

as on March 31, 2020. The debt coverage indicators continued to remain comfortable as reflected by PBILDT interest coverage ratio and total debt to gross cash accruals at 6.40 times and 0.98 times respectively as on March 31, 2021 vis-à-vis ICR and TD/GCA of 3.94 times and 4.47 times respectively in FY20. This is mainly due to sustained and improved profitability and lower debt level as on balance sheet date along with increase in cash profits

Key Rating Weaknesses

Working capital intensive operations

The operations of GBL are working capital intensive marked by funds blocked in collection and inventory. The collection period improved to 86 days in FY21 vis-à-vis 103 days in FY20. Further, inventory period also reduced to 101 days in FY21 vis-à-vis 123 days in FY20 owing to faster off-take of inventory. Led by the same, working capital cycle improved substantially from 119 days in FY20 to 84 days in FY21. Also, the average utilization of fund based limits stood it should be around 30% for past twelve months ending Feb 2022.

Highly regulated industry

The pharmaceutical industry is among the most regulated across the world and needs regular approvals from relevant drug authorities across countries. The time for obtaining approvals is significant and regulations governing the industry change from region to region. Hence, the company is required to comply with various laws, rules and regulations and operate under strict regulatory environment in India and abroad considering the nature of business. The same includes sterner drug quality norms in various global market places, and price controls in India through introduction of New Drug Price Control Order in May 2013. Thus, regulatory risks have emerged as a significant risk factor affecting the financial and credit risk profile of pharmaceutical companies and can have a serious consequence on the operations, in case, of any infringement of any law.

Susceptibility of margins to any adverse movement in raw material prices

GBL procures majority of raw materials from domestic market and partly through imports (approx. 40% of total purchases). All the imports of the company are LC backed. Although the raw material prices remained stable in the past few years, the profitability margins are susceptible to any adverse fluctuation in raw material prices. However, well-established relationship with suppliers mitigates risk to certain extent. Moreover, the company does not undertake any hedging for forex fluctuations. Hence, the profitability is also susceptible to forex fluctuations.

Liquidity Position: Adequate

GBL's liquidity position remained adequate on account of sufficient cash accruals. The company's gross cash accruals are sufficient to meet the long-term repayment obligations over medium term. The average utilization of fund based working capital limits for past twelve months stood low at 30%. However, the company has free cash and cash equivalents amounting Rs 6.20 crore as on March 31, 2021 which provides additional liquidity cushion.

Analytical approach: Standalone

Applicable criteria:

[Policy on Withdrawal of ratings](#)

[Financial ratios - Non Financial Sector](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

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

[CARE's methodology for Manufacturing Companies](#)

[Rating Methodology – Pharmaceutical Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

Incorporated in 1984, Gufic Biosciences Limited (GBL) is a pharmaceutical company promoted by Mr. Jayesh P Choksi and Mr. Pranav Choksi, who hold 65.75% equity stake directly or through group companies as on March 31, 2020. The company is primarily engaged in manufacturing formulations and active pharmaceutical ingredients (APIs) for various leading pharmaceutical companies in India. The company has established itself in the pharma, herbal and biotechnology business in India. The company specialises in lyophilized products, herbal formulations, critical care medicines and infertility products. The key business segments are pharma products (75% revenue), bulk drugs (15% revenue) and consumer care products (10% revenue). GBL's key focus is in contract manufacturing and the intellectual property rights of the products manufactured under contract manufacturing remains with GBL for majority of the products. Its manufacturing facilities are located at Navsari and Baroda in Gujarat and Belgaum in Karnataka. The market cap of the company is Rs.1,604 crore.

Brief Financials (Rs. crore)	FY20 (A)	FY21(A)	9MFY22
Total operating income	363.30	491.08	620.03
PBILDT	50.13	87.30	117.27
PAT	22.86	44.23	75.58
Overall gearing (times)	1.26	0.36	NA
Interest coverage (times)	3.94	6.40	30.94

A: Audited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not Applicable

Disclosure of Interest of Managing Director & CEO: Not Applicable

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

Covenants of rated instrument / facility: Not Applicable

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

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	-	0.00	Withdrawn
Fund-based/Non-fund-based-LT/ST	-	-	-	-	0.00	Withdrawn

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 - LT-Cash Credit	LT	-	-	-	1)CARE BBB; Stable (30-Mar-21) 2)CARE BBB- (CWD) (19-Jun-20)	1)CARE BBB- (CWD) (05-Apr-19)	1)CARE BBB- (CWD) (29-Jun-18) 2)CARE BBB- (CWD) (06-Apr-18)
2	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB; Stable (30-Mar-21) 2)CARE BBB- (CWD) (19-Jun-20)	1)CARE BBB- (CWD) (05-Apr-19)	1)CARE BBB- (CWD) (29-Jun-18)
3	Fund-based/Non-fund-based-LT/ST	LT/ST*	-	-	-	1)CARE BBB; Stable / CARE A3 (30-Mar-21) 2)CARE BBB- / CARE A3 (CWD) (19-Jun-20)	1)CARE BBB- / CARE A3 (CWD) (05-Apr-19)	1)CARE BBB- / CARE A3 (CWD) (29-Jun-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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