Gujarat Themis Biosyn Limited
August 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2.00	CARE BBB; Stable	Reaffirmed
Short-term bank facilities	3.00	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers
The ratings assigned to the bank facilities of Gujarat Themis Biosyn Limited (GTBL) continue to derive strength from the experienced and qualified promoters and management team, the niche product offerings albeit high dependency on a few products, the accredited manufacturing facilities, the healthy profit margins and comfortable capital structure, and debt coverage indicators.

The ratings, however, continue to be constrained by the moderate although growing scale of operations, the working capital-intensive nature of operations, project execution risk, customer and supplier concentration risk, intense competition and presence in a fragmented industry, and susceptibility of profitability margins to raw material prices.

Rating sensitivities: Factors likely to lead to rating actions
Positive factors
- Increase in total operating income (TOI) beyond ₹250 crore while maintaining operating profitability at the present level on a sustained basis.
- Improvement in the working capital cycle below 50 days on a sustained basis.
- Diversifying customer base by adding new clients.

Negative factors
- Deterioration in the overall gearing beyond 1x on a sustained basis.
- Inability of the company to complete the project in a timely manner.

Analytical approach: Standalone

Outlook: Stable
The 'Stable' rating outlook reflects the stable business and financial risk profile of the company. The company is expected to sustain its moderate scale of operations and healthy operating profitability along with maintaining a healthy liquidity position.

Key strengths

Experienced and qualified promoters and management team
GTBL is actively managed by the promoters of Themis Medicare Limited (TML) since 2007. Dr Dinesh Patel, who is the Executive Vice Chairman, and his son, Dr Sachin Patel, Managing Director & CEO, has a PhD in Medicinal Chemistry by qualification. He has been the recipient of several industrial accolades. Dr Sachin Patel holds a doctorate in Biological Chemistry from Christ's College, University of Cambridge, in the UK. Furthermore, the promoters are supported by a well-qualified and experienced second-tier management.

Niche product offerings, albeit high dependency on a few products
The company is engaged in the manufacturing of intermediates, namely, Rifamycin S and Rifamycin O, using the 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 the treatment of several types of bacterial infections, including tuberculosis, Mycobacterium avium complex, leprosy, and Legionnaires' disease. Rifaximin is used for the treatment of diarrhoea, irritable bowel syndrome, and hepatic encephalopathy. Owing to its complex fermentation capabilities with high capex involved, there is limited entry barrier.

Raw material sourcing and accredited manufacturing facilities
The key raw material for GTBL is Rifabutin, which is sourced through the domestic market. The company has long-standing relationships with its suppliers, thereby ensuring the timely supply of key raw materials. The company's manufacturing plant is

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

located in Vapi, Valsad district, Gujarat, and the same is Current Good Manufacturing Practice (CGMP)-approved. The company has an installed capacity for manufacturing 216,000 kg of Rifamycin S and Rifamycin O per annum.

Healthy profit margins
The profit before interest, lease rentals, depreciation and taxation (PBILDT) margin of the company continued to remain healthy and in the range of 44-50% during the last three year ending FY23. It slightly moderated to 49.82% in FY23 vis-à-vis 50.51% in FY22 on account of an increase in the cost of materials (17.79% of the TOI in FY23 compared to 14.47% TOI in FY22). However, the sales realisation improved to ₹7,469 per kg sold in FY23 compared to ₹6,537 per kg sold in FY22. The profit-after-tax (PAT) margin also remained healthy and in the range of 33-38% for the last three years ended FY23. It improved marginally to 38.91% in FY23 vis-à-vis 37.98% in FY22 on account of a decline in interest expenses due to a reduction in the total debt (TD) with repayment of lease liability with a decline in the TD in FY23.

Comfortable capital structure and debt coverage indicators
GTBL's capital structure continued to remain comfortable with negligible outstanding debt in the form of a lease liability of ₹0.42 crore compared to a sizeable net worth base of ₹149.15 crore as on March 31, 2023. Furthermore, the working capital bank borrowings also remained unutilised. Therefore, the overall gearing stood at 0.0028x as on March 31, 2023, vis-à-vis 0.01x as on March 31, 2022.

Furthermore, the debt coverage indicators of the company continued to remain comfortable with an interest coverage ratio (ICR), as interest cost represented bank charges and interest lease liability charges of ₹0.20 crore in FY23 vis-à-vis ₹0.83 crore in FY22. Furthermore, the TD to gross cash accruals (GCA) also improved to 0.01x in FY23 vis-à-vis 0.03x in FY22 on account of an increase in the GCA and a decline in the TD in FY23.

Key weaknesses

Moderate, although growing scale of operations
GTBL's scale of operations grew by 30% to ₹148.97 crore in FY23 vis-à-vis ₹114.86 crore in FY22 on account of an increase in the quantity sold (198,313 kg in FY23 from 174,689 kg in FY22) with an increased demand of the products in FY23. Along with the same, the tangible net worth (TNW) of the company also increased significantly to ₹149.15 crore in FY23 vis-à-vis ₹103.32 crore in FY22 with accretion of healthy profits to reserves. Despite the growth in scale of operations, it continues to remain moderate.

Working capital-intensive nature of operations
GTBL's operations remained working capital-intensive and the cycle elongated to 67 days in FY23 vis-à-vis 56 days in FY22, mainly on account of funds stuck in inventory and debtors. On the other hand, the company receives a credit period of two months, which led to an average creditors' period of 48 days in FY23 and 63 days in FY22. Therefore, the operations remained working capital-intensive and the working capital requirement is met through internal accruals. However, despite the stretched working capital cycle, its working capital limit of ₹2 crore and its average utilisation remained nil during the last 12 months ended June 30, 2023, on account of its adequate liquidity position and sufficient internal accruals.

Project execution risk
GTBL had undertaken a capex, wherein it is setting up a warehouse and a research and development (R&D) department at its existing plant located at Valsad. The total cost of the project was ₹32 crore and the company had incurred ₹18 crore towards project execution up to July 28, 2022, which was funded entirely through its own funds.

Currently, the company has expanded the scope of the project by adding more fermenters and setting up an active pharmaceutical ingredients (API) manufacturing unit at its existing plant. Hence, the total estimated cost of the project has increased to ₹183.04 crore and the entire project cost is to be funded through internal accruals. The land for the same is already in place and the company has incurred ₹29.22 crore towards execution of the project through internal accruals up to June 08, 2023. The company has set up a warehouse and its partially operational R&D department and the set-up of the API unit and fermenters are under execution. The entire project commenced in June 2022 and is expected to be completed by FY26. Thus, going forward, GTBL's ability to complete the project in a timely manner without any cost and time overruns and the subsequent stabilisation of the same remains critical from the credit perspective.

Customer and supplier concentration risk
The company caters to only two customers, ie, Lupin Limited, contributing 44% of the sales, and Optrix Laboratories Private Limited, contributing the balance 56% of sales. The company has a 'take or pay' agreement with Optrix Laboratories Private Limited, which is renewed annually, and has a contract with Lupin Limited for five years, hence concentration risk is mitigated to an extent. However, any major setback in the financial profile of these clients can significantly impact the growth of GTBL. Furthermore, the supplier profile of the company also remained concentrated, with the top 10 suppliers contributing 83% of the total purchases in FY23 vis-à-vis 70% of the total purchases in FY22.

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, APIs, and contract research and manufacturing services (CRAMS) segments. Although 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

The liquidity position remained adequate, marked by sufficient cushion in accruals vis-à-vis repayment obligations and free cash and bank balance of ₹48.48 crore as on March 31, 2023, vis-à-vis ₹20.95 crore as on March 31, 2022. There is ongoing capex, which will be funded through internal accruals, and in case of any shortfalls, liquid funds will be used. Its working capital requirement is funded by internal accruals and has a cash credit limit of ₹2 crore, of which the average utilisation remained nil during the last 12 months ended June 30, 2023. Furthermore, the current ratio and quick ratio stood comfortable at 6.70x and 5.74x, respectively, as on March 31, 2023 (vis-à-vis 4.99x and 4.31x, respectively, as on March 31, 2022).

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Pharmaceutical

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

GTBL was incorporated in 1981 and is engaged in the manufacturing of APIs, namely, Rifamycin S and Rifamycin O. Rifamycin S is an intermediate for manufacturing drug Rifampicin (antibiotic used for the treatment of several types of bacterial infections, including tuberculosis, Mycobacterium avium complex, leprosy, and Legionnaires' disease). Rifamycin O is an intermediate for manufacturing drug Rifaximin (antibiotic used for the treatment of traveller's diarrhoea, irritable bowel syndrome, and hepatic encephalopathy). These are niche products. The company's manufacturing plant is located in Vapi, Valsad district, Gujarat, and the same is CGMP approved. The company has an installed capacity for manufacturing 10,000 kg of Rifamycin C per month and 6,000 kg of Rifamycin O per month.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	114.86	148.97	NA
PBILDT	58.02	74.22	NA
PAT	43.62	57.97	NA
Overall gearing (times)	0.01	0.00	NA
Interest coverage (times)	72.98	369.79	NA

A: Audited, UA: Unaudited, NA: Not available. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ 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 for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based-Long Term	LT	2.00	CARE BBB; Stable	-	1)CARE BBB; Stable (04-Aug-22)	1)CARE BBB-; Stable (07-Jul-21)	-
2	Non-fund-based - ST-BG/LC	ST	3.00	CARE A3+	-	1)CARE A3+ (04-Aug-22)	1)CARE A3 (07-Jul-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not available

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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 us:
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