

## Godavari Drugs Limited

July 23, 2018

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	6.00	<b>CARE BB-; ISSUER NOT COOPERATING (Double B Minus; Issuer not cooperating)</b>	Issuer not cooperating; Revised from CARE BB; Issuer not cooperating (Double B; Issuer not cooperating) Based on best available information
Short term Bank Facilities	15.00	<b>CARE A4; ISSUER NOT COOPERATING (A Four; Issuer not cooperating)</b>	Issuer not cooperating; Based on best available information
<b>Total</b>	<b>21.00 (Twenty One Crore only)</b>		

*Details of facilities in Annexure-1*

#### **Detailed Rationale & Key Rating Drivers**

CARE has been seeking information from Godavari Drugs Limited to monitor the rating vide e-mail communications/ letters dated May 08, 2018, May 15, 2018, May 17, 2018 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the rating. **In the absence of minimum information required for the purpose of rating, CARE is unable to express opinion on the rating. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of publicly available information which however, in CARE's opinion is not sufficient to arrive at fair rating.** The rating on Godavari Drugs Limited's bank facilities will now be denoted as **CARE BB-; Issuer not Cooperating/CARE A4; Issuer not Cooperating\***

***Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.***

#### **Detailed description of the key rating drivers**

*The rating assigned to the bank facilities of Godavari Drugs Limited continues to be tempered by decline in profitability margins in FY18, deterioration of debt coverage indicators, elongation of operating cycle and presence in highly fragmented industry. The rating also takes into account the decrease in total operating income in FY18. The rating however continues to draw its strength from extensive experience of the promoters in the industry and comfortable capital structure.*

#### **Key Rating Weakness**

##### **Decrease in total operating income and profitability margins in FY18**

Total operating income (TOI) has decreased from Rs. 71.31 crore in FY16 to Rs. 64.45 crore in FY18. PBILDT margin has decreased by 56 bps from 7.88% in FY17 to 7.32% in FY18. Furthermore, PAT margin decreased from 2.37% in FY17 to 1.29% in FY18 on account of decrease in PBILDT in absolute terms.

##### **Deterioration of debt coverage indicators albeit comfortable capital structure**

The capital structure denoted by debt equity ratio and overall gearing continue to remain comfortable in FY17 and FY18.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

\*Issuer did not cooperate; Based on best available information

Overall gearing stood at 1.06x as on March 31, 2018. The debt coverage indicators marked by interest coverage ratio and total debt/GCA stood at 1.95 and 9.96x respectively in FY18 when compared to 2.53x and 7.15x respectively in FY16 on account of deteriorated PBILDT levels and cash accruals.

**Elongation of operating cycle**

Operating cycle remained elongated at 66 days in FY17 on account of stretched collection days which has increased from 86 days in FY16 to 105 days in FY17.

**Highly fragmented industry**

The Indian Pharmaceutical Industry (IPI) is globally the 3rd largest in terms of volume and 13th biggest in terms of value, accounting for ~10% of the global pharma market by volume and ~2% by value. Lower share in terms of value can be attributed to the lower prices of the medicines sold in the country.

**Key Rating Strengths****Extensive experience of the promoters in the industry**

GDL is promoted by Mr Ghanshyam Jaju (Chairman) who has long established presence in the pharmaceutical industry with experience of about four decades in the industry. The company is also supported by Mr Mohit Jaju (Executive Director) who is an engineer and handles the technical operations of the company including development of new products and Mr Mukund Kakani (Managing Director) who is a qualified chemical engineer with experience of about 38 years in the pharma sector. The promoters are supported by team of experienced professionals.

**Analytical Approach:** Standalone

**Applicable Criteria**

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook to Credit rating](#)

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

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

**About the Company**

Godavari Drugs Limited (GDL) was incorporated in 1987 as a private limited company and subsequently, in 1995, the constitution was changed to public limited. The company has been promoted by Shri Ghanshyam Jaju who has presence in the pharmaceutical industry for the last four decades. GDL commenced its business operation from 1989 with manufacturing of Active Pharmaceutical Ingredients (API), particularly, Sulfamethoxazole, located in Maharashtra Industrial Development Corporation Estate (MIDC) at Nanded, Maharashtra. The company was engaged in contract manufacturing primarily for Dr. Reddy's Laboratories through loan license manufacturing w.e.f. Dec 20, 2011 to Dec 19, 2015 and RPG Life Sciences Limited. This apart, revenue was also derived from sale of API, drug intermediates and fine chemicals. The company's products are concentrated mainly in antibiotic, anti-tuberculosis and anti-allergy therapeutic segments.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an *External Credit Assessment Institution (ECAI)* by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Disclaimer**

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook 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-Cash Credit	-	-	-	6.00	CARE BB-; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC	-	-	-	15.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A4; ISSUER NOT COOPERATING*

*\*Issuer did not cooperate; Based on best available information*

## 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-Cash Credit	LT	6.00	CARE BB-; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB; ISSUER NOT COOPERATING*	-	1)CARE BB; ISSUER NOT COOPERATING* (19-May-17)	-	1)CARE BB+ (11-Feb-16)
2.	Non-fund-based - ST-BG/LC	ST	15.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4; ISSUER NOT COOPERATING* (19-May-17)	-	1)CARE A4+ (11-Feb-16)

\*Issuer did not cooperate; Based on best available information

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