

Godavari Drugs Limited

August 27, 2019

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long -term Bank Facilities	6.00	CARE BB-; Stable; Issuer not cooperating (Double B Minus; Outlook: Stable) Issuer not Cooperating *	Issuer not cooperating: On the basis of best available Information*
Short -term Bank Facilities	15.00	CARE A4, ISSUER NOT COOPERATING* (A Four Issuer not cooperating)	Issuer not cooperating: On the basis of best available Information*
Total Facilities	21.00 (Rupees Twenty One Core Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated August 03, 2018, placed the rating(s) of Godavari Drugs Limited (GDL) under the 'Issuer non-cooperating' category as GDL had failed to provide information for monitoring of the rating. GDL continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and email dated August 13, 2019, August 14, 2019, August 16, 2019 and August 19, 2019. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

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 marginal decline in PBILDT margin in FY19 and thin PAT margin, deteriorated capital structure, debt coverage indicators of GDL improved marginally albeit remained moderate, working capital intensive nature of operations and presence in highly fragmented industry. The rating also takes into account the increase in total operating income in FY19. The rating however continues to draw its strength from extensive experience of the promoters in the industry.

Key Rating Weakness

Marginal decline in PBILDT margin in FY19 albeit thin PAT margin

PBILDT margin has decreased by 49 bps from 7.32% in FY18 to 6.83% in FY19. Whereas, the PAT margin has increased by 15 bps from 1.29% in FY18 to 1.44% in FY19 on account of increase in PBILDT in absolute terms

Deteriorated capital structure, debt coverage indicators of GDL improved marginally albeit remained moderate

The capital structure remained moderate marked by debt equity ratio and overall gearing which deteriorated marginally and stood at 0.44x & 1.15x as on March 31, 2019 respectively (as against 0.39x & 1.06x as on March 31, 2019) due to increase in total debt levels, despite of increase in tangible networkth.

Due to above mentioned reason along with increase in GCA, the debt coverage indicators of the company have improved marginally marked by PBILDT interest coverage ratio and total debt/GCA, however remained moderate at 1.98x and 9.15x in FY19 respectively (as against 1.95x & 9.96x in FY18)

Working capital intensive of nature of operations

Operating cycle remained elongated at 76 days in FY19 as compared to 87 days in FY18 on account of stretched collection days.

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.

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

*Issuer did not cooperate; based on best available information

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.

Increase in total operating Income (TOI) during FY19

Total operating income of the company has increased by 30% during FY19 and stood at Rs. 83.709 crore as compared to 64.45 crore in FY18.

Liquidity Analysis

The current ratio of GDL remained above unity and remained comfortable at 1.24x as on March 31, 2019 mainly on account of high account receivable as compared to current liabilities. Also the cash and cash equivalents of the GDL stood at Rs. 1.53 crore to meet its liquidity requirements as on closing balance sheet date.

Analytical Approach: Standalone

Applicable Criteria

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

[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](#)

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. Mr. Mukund Kakani (MD) is a chemical engineer and possesses experience of over three decades in pharmaceutical industry. 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. This facility is certified by Current Good Manufacturing Practices (cGMP) and World Health Organization. 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. Under loan license manufacturing, GDL was engaged in manufacturing of Ciprofloxacin drug for Dr. Reddy's Laboratories (DRL) and AD Lactone intermediate for RPG Life Sciences Limited (RPGLSL) under contract manufacturing. The company's products are concentrated mainly in antibiotic, anti-tuberculosis and anti-allergy therapeutic segments.

. In FY19, GDL had a Profit after Tax (PAT) of Rs.1.21 crore on a total operating income of Rs.83.79 crore, as against PAT and TOI of Rs.0.83 crore and Rs.64.45 crore, respectively, in FY18.

Brief Financials (Rs. crore)	FY18(A)	FY19(A)
Total operating income	64.45	83.79
PBILDT	4.72	5.72
PAT	0.83	1.21
Overall gearing (times)	1.06	1.15
Interest coverage (times)	1.95	1.98

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): 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 - LT-Cash Credit	-	-	-	6.00	CARE BB-; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - ST-BG/LC	-	-	-	15.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

*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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	6.00	CARE BB-; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE BB-; ISSUER NOT COOPERATING* (23-Jul-18)	1)CARE BB; ISSUER NOT COOPERATING* (19-May-17)	-
2.	Non-fund-based - ST-BG/LC	ST	15.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A4; ISSUER NOT COOPERATING* (23-Jul-18)	1)CARE A4; ISSUER NOT COOPERATING* (19-May-17)	-

*Issuer did not cooperate; based on best available information

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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