

## Gufic Biosciences Limited

April 6, 2018

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities (fund based)	25.00	CARE BBB- [Triple B Minus] (Under Credit watch with developing implications)	Continues on credit watch with developing implications
<b>Total</b>	<b>25.00</b> <b>(Rupees Twenty Five crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Gufic Biosciences Limited (GBL) continue to be under 'credit watch with developing implications' following the impending approval from various stakeholders for the amalgamation of Gufic Lifesciences Private Limited with GBL and the impact of the same on the credit profile of GBL. CARE will take a final view on the rating, once the exact implications of the above development on the business and overall credit profile of the GBL are clear.

The rating continues to derive strength from the established track record of operations and rich experience of the promoters in the pharmaceutical industry, consistent growth in revenues and profitability backed by a well-diversified product portfolio albeit small scale of operations, established expertise in the injectable segment with focus on lyophilisation products catering to reputed client base and accredited manufacturing facility. The rating is further strengthened by its moderate capital structure and debt coverage indicators.

However, the ratings continue to be constrained by elongated working capital cycle, and susceptibility of profit margins to any adverse movement in raw material prices. The ratings also factor in the funding support to group entities and operating in a highly regulated industry.

Going forward, GBL's ability to improve its profitability margins whilst scaling of operations and improvement in capital structure through effective working capital management are key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Promoter's long standing experience in the pharmaceutical industry:** GBL is promoted by Choksi family, who hold 65.73% stake directly or through group companies as on December 31, 2017 and are present in the pharmaceutical industry for more than five decades.

**Diversified product portfolio with established brands spread across multiple therapeutic segments:** The company's product segments include formulations, bulk drugs and consumer (over the counter products) and manufactures products in the areas of pharma, herbal, and consumer products. The product portfolio is well diversified marked by its presence in key therapeutic segments such as anti-fungal, anti-bacterial, anti-infective, anti-inflammatory including niche segments viz. critical care products with special focus on lyophilisation products. The company is engaged in contract manufacturing (CRAMS) of formulations for pharmaceuticals companies based in India and also, manufactures own brands of products and sells it through its own marketing channels.

**Accredited manufacturing facility:** GBL manufactures its products at three separate facilities at Navsari, Baroda and Belgaum. The Navsari facility manufacturing active pharmaceutical ingredients and formulations is a World Health Organisation (WHO), Good Manufacturing Practice (GMP) certified injectable manufacturing unit, catering to general and hormonal products for the Indian domestic and semi regulated markets internationally.

**Improvement in profitability margins:** Over the years, the company focused on manufacturing and marketing products under own brand under formulation segment. The same along with increased demand from export market (margin

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

accrue), resulted in increase in profit before interest, depreciation and tax to 11.16% in FY17 from 9.96% in FY16. The increased demand from export market for injections at higher margins further strengthened the profitability in the company. The same is reflected in increase in PBILDT margins to 11.16% in FY17 from 9.96% in FY16.

**Moderate capital structure and debt coverage indicators:** The overall gearing ratio remained comfortable at 1.58 times as on March 31, 2017. Furthermore, the PBILDT interest coverage and total debt/gross cash accruals remained at moderate levels at 4.82 times and 4.90 times in FY17 respectively.

**Reputed client base under CRAMs:** GBL has a reputed clientele comprising of leading global pharmaceutical companies and has maintained long term relations with these clients resulting in repeat orders.

#### Key Rating Weaknesses

**Small scale of operations:** Although, the total operating income is increased to Rs.250 crore in FY17 and Rs.228 crore in 9MFY18 (unaudited) on account of increased focus on export market. However, the company continues to remain a small sized player in pharmaceutical industry and is susceptible to any economic volatility or adverse business conditions.

**Elongated working capital cycle:** The company operates in a working capital intensive business due to considerable inventory held and credit period offered to domestic customers. In addition, the reduction of supplier credit in FY17 resulted in elongation of working capital cycle to 95 days in FY17.

**Support to group entities:** As on March 31, 2017, the loans and advances to related parties are outstanding at Rs.17.17 crore as against Rs.2.62 crore. The same is provided as a support group entity and is recoverable.

**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 takes significant time and regulations governing the industry change from region to region.

**Susceptibility of margins to any adverse movement in raw material prices:** GPL procures majority of raw materials from domestic market and partly through imports. Thus, the profitability margins are susceptible to any adverse fluctuation in raw material prices.

**Analytical approach:** Standalone. Due to the impending approvals from various stakeholders for amalgamation of GuficLifesciences Private Limited with GBL, CARE has analysed the credit profile of GBL on a standalone basis.

#### Applicable Criteria

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

[Financials Ratio-Non Financial Sector](#)

[Criteria for placing rating on credit watch](#)

[Rating Methodology: Pharmaceutical Sector](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

#### About the Company

Incorporated in 2000, Gufic Biosciences Limited (GBL) is a pharmaceutical company closely held by Choksi family, who hold 69.98% equity stake directly or through group companies. 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. 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.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	202.72	250.20
PBILDT	20.18	27.91
PAT	7.26	11.39
Overall gearing (times)	1.69	1.58
Interest coverage (times)	3.76	4.82

A: Audited

**Status of non-cooperation with previous CRA:** ICRA suspended its rating vide press release dated July 26, 2016 on account of non-cooperation by GBL with ICRA's effort to undertake a review of outstanding ratings.

**Any other information:**Not applicable

**Rating History for 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.

**Analyst Contact:**

Name: Mr. Vikash Agarwal

Tel: 022 6754 3405

Board: 022 6754 3456

Email: [vikash.agarwal@careratings.com](mailto:vikash.agarwal@careratings.com)

**\*\*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/facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	25.00	CARE BBB- (Under Credit Watch)

**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	Dates & Ratings assigned in 2018-2019	Dates & Ratings assigned in 2017-2018	Dates & Ratings assigned in 2016-2017	Dates & Ratings assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	25.00	CARE BBB- (Under Credit Watch)	-	1)CARE BBB- (Under Credit watch with Developing Implications) (20-Nov-17) 2)CARE BBB-; Stable (19-Apr-17)	1)CARE BBB- (16-Jun-16)	-

**CONTACT****Head Office Mumbai****Ms. MeenalSikchi**

Cell: + 9198190 09839

E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)**Ms.RashmiNarvankar**

Cell: + 9199675 70636

E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)**Mr. AnkurSachdeva**

Cell: + 9198196 98985

E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)**Mr. Saikat Roy**

Cell: + 9198209 98779

E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062

Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91-0172-490-4000/01

Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**COIMBATORE****Mr. V Pradeep Kumar**T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)**JAIPUR****Mr. Nikhil Soni**304, PashupatiAkshatHeights, Plot No. D-91,  
Madho Singh Road, NearCollectorateCircle,  
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)**PUNE****Mr.Pratim Banerjee**9th Floor, Pride KumarSenate,  
Plot No. 970, Bhamburda, SenapatiBapat Road,  
ShivajiNagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

CIN - L67190MH1993PLC071691