Gufic Biosciences Limited (Revised)

June 19, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities (Cash Credit)	82.00	**CARE BBB- [Triple B Minus] (Under Credit watch with developing implications)**	Continues on credit watch with developing implications
Long-term Bank Facilities (Term Loan)	5.43	**CARE BBB- [Triple B Minus] (Under Credit watch with developing implications)**	Continues on credit watch with developing implications
Long term/ Short term bank facilities (Fund based and Non-fund based)	15.57	**CARE BBB- /CARE A3 [Triple B Minus/ A Three] (Under Credit watch with developing implications)**	Continues on credit watch with developing implications
Total	**103.00 (Rupees One hundred and Three crore only)**		

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' on account of proposed amalgamation of Gufic Lifesciences Pvt. Ltd. with GBL and the possible impact of the same on the credit profile of GBL. The company has applied to National Company Law Tribunal (NCLT) for approval for the amalgamation process. 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 ratings continue to draw comfort from growth in revenues and sustained profit margins at healthy levels during FY19 (refer to the period from April 01 to March 31) as well as comfortable debt coverage indicators. The ratings continue to factor vast experience of the promoters, diversified product portfolio of the company, reputed client base and accredited manufacturing facility.

The above rating strengths are however constrained by moderate capital structure, elongation in operating cycle leading to higher working capital utilization of fund based limits thereby impacting liquidity position, moderate scale of operations, as well as susceptibility of revenues and profitability to the regulatory risk, fluctuation in raw material prices and exchange rates.

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

Rating sensitivities:

Positive factors

- Increase in PBILDT margins above 16% on a sustained basis
- Improvement in operating cycle below 90 days on a sustained basis

Negative factors

- Increase in overall gearing (including LC acceptances) above 2 times on sustained basis
- Deterioration in operating cycle beyond 130 days leading to consistent increase in working capital utilization thereby resulting in stretched liquidity

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 1960, 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

GBL, part of Gufic group, manufactures APIs and formulations at its Navsari facility. The facility is a WHO GMP certified injectable manufacturing unit, catering to general and hormonal products for the Indian domestic and semi regulated markets internationally. GBL currently has nine Lyophilizers catering to total capacity of 19.2 million vials per annum and caters to various therapeutic segments. Besides, the total installed capacity for Gufic group post amalgamation will increase to 37.2 million vials per annum.

Diversified product portfolio

The product portfolio of the company is well diversified, marked by its presence in key therapeutic segments (bulk drugs/API division) such as anti-fungal, anti-bacterial, anti-infective, anti-inflammatory, and anesthetic products. GBL's lyophilizatoin product includes antibiotic, antifungal, cardiac, infertility, antiviral, and proton pump inhibitor. The company added 20 more products in bulk drugs division during FY19 and FY20.

The company's product portfolio can be divided mainly into two segments i.e. pharma (88% of total revenues) and bulk drugs (12% of total revenues). Pharma segment includes manufacturing and trading of tablets, capsules, ointment, syrup/suspension powder, injection and lotion etc.

Growth in revenues coupled with sustained profit margins

The company expanded its product portfolio by introducing around 20 new products during FY19 and FY20 in the market. Increased focus on branded products export resulted in 13.66% growth in total operating income during FY19. Increase in sales through exports during FY19 is attributed to increase in export share from Myanmar and Sri Lanka followed by South East Asia.

The company reported PBILDT margin of 14.17% in 9MFY20 compared to 13.21% in 9MFY19. The company's PBILDT margin had slightly improved to 13.77% in FY19 from 13.19% in FY18; the PAT margin also stood moderate at 6.16% in FY19.

PBILDT margins have remained in the range of 13-14% during FY19 and FY18 in spite of improvement in scale of operations mainly on account of increase in regulatory expenses, R&D and employee costs. The company is focusing on new product development in infertility, gynecology, and orthopedic segment that are more profitable leading to increase in the said costs.

Comfortable debt coverage indicators

The debt coverage indicators continued to remain robust as reflected by PBILDT interest coverage ratio at 4.83 times in FY19. However, total debt to gross cash accruals deteriorated slightly from 4.52 times in FY18 to 4.88 times in FY19.

PBILDT interest coverage ratio stood at 4.11 times in 9MFY20 compared to 5.09 times in 9MFY20. This is mainly due to increase in interest costs owing to debt funded capex.

Key Rating Weaknesses

Moderate scale of operations

GBL's total operating income has improved by 13.66% in FY19. However, the scale of operations continues to remain moderate with total operating income of Rs.353.45 crore in FY19 and tangible net worth of Rs.74.98 crore as on March 31, 2019.

Moderate scale of operations limits company's ability to undertake high value orders thereby limiting the benefits of economies of scale.

Moderate capital structure

Ploughing back of profits over past two years led to increase in tangible net worth of GBL. However, the capital structure of the company continues to remain moderate as seen from overall gearing at 1.84 times as on March 31, 2019 compared to 1.86 times as on March 31, 2018. The company availed term loan amounting Rs.2.57 crore during FY19 to fund capex. The company commenced capex for increasing installed capacity of lyophilizatoin and anti-fungal products during FY19.

Increase in working capital cycle

Lower than expected demand offtake in March, 2019 in domestic market, resulted in increase in inventory of finished goods leading to increase in average inventory holding period from 112 days as on March 31, 2018 to 116 days as on March 31, 2019. Moreover, average collection period increased from 78 days as on March 31, 2018 to 95 days as on March 31, 2019. This led to increase in average operating cycle from 109 days as on March 31, 2018 to 120 days as on March 31, 2019. Also, the company is focusing on increasing its presence in overseas markets where the credit period ranges between 90-120 days. This has led to increase in receivables during FY19 and FY20. The same is funded through internal accruals and working capital limits.

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 (around 40% of total purchases). Although raw material prices remained stable in the past few years, the profitability margins are susceptible to any adverse fluctuation in raw material prices. However, the company's well-established relationships with its suppliers mitigate risk to certain extent.

Liquidity Position: Adequate

GBL's liquidity position remained adequate on account of sufficient cash accruals. The company has repayment obligations of only Rs.0.76 crore in FY21. 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 12 months stood high at 92.44%. However, the company has free cash and cash equivalents amounting Rs.4.52 crore as on March 31, 2020 which provides additional liquidity cushion.

Analytical approach: Standalone

Applicable Criteria

CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology: Pharmaceutical Sector
Criteria on assigning Outlook and credit watch to credit ratings
Liquidity analysis for 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 specializes in lyophilized products, herbal formulations, critical care medicines and infertility products. 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)	FY18 (A)	FY19 (A)
Total operating income	310.97	353.45
PBILDT	41.02	48.67
PAT	16.48	21.77
Overall gearing (times)	1.86	1.84
Interest coverage (times)	4.99	4.83

A: Audited

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

Any other information: Not Applicable.

Rating History for 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	-	-	-	82.00	CARE BBB- (Under Credit watch with Developing Implications)
Fund-based - LT-Term Loan	-	-	November 2022	5.43	CARE BBB- (Under Credit watch with Developing Implications)
Fund-based/Non-fund-based-LT/ST	-	-	-	15.57	CARE BBB- / CARE A3 (Under Credit watch with Developing Implications)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	82.00	CARE BBB- (Under Credit watch with Developing Implications)	-	1)CARE BBB- (Under Credit watch with Developing Implications) (05-Apr-19)	1)CARE BBB- (Under Credit watch with Developing Implications) (29-Jun-18) 2)CARE BBB- (Under Credit watch with Developing Implications) (06-Apr-18)	1)CARE BBB- (Under Credit watch with Developing Implications) (20-Nov-17) 2)CARE BBB-; Stable (19-Apr-17)
2.	Fund-based - LT-Term Loan	LT	5.43	CARE BBB- (Under Credit watch with Developing Implications)	-	1)CARE BBB- (Under Credit watch with Developing Implications) (05-Apr-19)	1)CARE BBB- (Under Credit watch with Developing Implications) (29-Jun-18)	-
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	15.57	CARE BBB- / CARE A3 (Under Credit watch with Developing Implications)	-	1)CARE BBB- / CARE A3 (Under Credit watch with Developing Implications) (05-Apr-19)	1)CARE BBB- / CARE A3 (Under Credit watch with Developing Implications) (29-Jun-18)	-

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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About CARE Ratings:

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