

Gufic Biosciences Limited

June 29, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities (fund based)	60.00 (enhanced from Rs.25.00 crore)	CARE BBB- [Triple B Minus] (under Credit Watch with Developing Implications)	Continues on credit watch with developing implications
Long-term Bank Facilities (term loan)	7.00	CARE BBB- [Triple B Minus] (under Credit Watch with Developing Implications)	Assigned
Long-term/Short-term Bank Facilities (fund and non-fund based limit)	36.00	CARE BBB-/CARE A3 [Triple B Minus/A Three] (under Credit Watch with Developing Implications)	Assigned
Total	103.00 (Rs. 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 the proposed amalgamation of Gufic Lifesciences Private Limited (GLPL) with GBL and the possible impact of the same on the credit profile of the company. 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 Mr. Jayesh P Choksi and Mr. Pranav Choksi, who hold 65.73% stake directly or through group companies as on March 31, 2018 and are present in the pharmaceutical industry for more than five decades.

Diversified product portfolio 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.

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

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: 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 accretive), resulted in increase in profit after tax to Rs.16.02 crore in FY18 from Rs.9.02 crore in FY17.

Moderate capital structure and debt coverage indicators: The overall gearing ratio (excluding acceptances) remained comfortable at 1.75 times as on March 31, 2018. Furthermore, the profit before interest, depreciation and tax (PBILDT) interest coverage remained at moderate level of 4.81 times in FY18.

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 increased to around Rs.306 crore in FY18 from around Rs.247 crore in FY17 on account of increased focus on export market; 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.

Support to group entities: The company provided support to related parties in the form of loans and advances and are 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 is significant 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 Gufic Lifesciences Private Limited with GBL, CARE analysed the credit profile of GBL on a standalone basis.

Applicable Criteria

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

[CARE's methodology for Short-term Instruments](#)

[Financial ratios – 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 1984, Gufic Biosciences Limited (GBL) is a pharmaceutical company closely held by Mr. Jayesh P Choksi and Mr. Pranav Choksi, who hold 65.73% equity stake directly or through group companies as on March 31, 2018. 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)	FY17 (A)	FY18 (A)*
Total operating income	246.96	305.50
PBILDT	24.39	42.69
PAT	9.02	16.02
Overall gearing excluding acceptances (times)	1.52	1.49
Interest coverage (times)	3.85	4.81

A: Audited; *as per abridged results published on BSE website

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

For detailed Rating Rationale Report, refer report published on May 7, 2018

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 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	-	-	-	60.00	CARE BBB- (Under Credit watch with Developing Implications)
Fund-based - LT-Term Loan	-	-	November 2022	7.00	CARE BBB- (Under Credit watch with Developing Implications)
Fund-based/Non-fund-based-LT/ST	-	-	-	36.00	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	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	60.00	CARE BBB- (Under Credit watch with Developing Implications)	1)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)	1)CARE BBB- (16-Jun-16)	-
2.	Fund-based - LT-Term Loan	LT	7.00	CARE BBB- (Under Credit watch with Developing Implications)	-	-	-	-
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	36.00	CARE BBB- / CARE A3 (Under Credit watch with Developing Implications)	-	-	-	-

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