August 01, 2024

Gufic Biosciences Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Working capital facilities	8.00	10.00	[ICRA]A- (Stable); upgraded from [ICRA]BBB+ (Stable)
Short-term – Non-fund based – Letter of credit	37.00	35.00	[ICRA]A2+; upgraded from [ICRA]A2
Short Term – Non-fund based – Bank guarantee	5.00	5.00	[ICRA]A2+; upgraded from [ICRA]A2
Total	**50.00**	**50.00**	

**Instrument details are provided in Annexure-I*

Rationale

The upgraded ratings for Gufic Biosciences Limited (GBL) consider the expected strengthening of the company's credit profile on the back of sustained growth revenues and earnings. This, coupled with the equity infusion in FY2024, has bolstered the net-worth base and facilitated the prepayment of GBL's long-term debt, reducing its future repayment burden and improving the debt metrics. In FY2024, GBL reported a healthy growth of 16.8% amid favourable demand in its formulation business across key therapeutic areas. The revenue profile is also expected to be supported by the commercialisation of its Indore plant in the current month.

Additionally, the extensive experience of GBL's promoters in the pharmaceutical industry, an established customer profile with repeat orders and a well-diversified portfolio, including pharmaceutical and herbal formulations, bulk drugs, and consumer care products, favourably support the ratings. However, the ratings are constrained by the GBL's profitability being susceptible to fluctuations in active pharmaceutical ingredient (API) prices and changes in Government policies, particularly those related to price control as well as inherent competition in the domestic formulations industry from both organised and unorganised players. Furthermore, the high working capital intensity of operations due to the extended credit periods to customers remains a concern, although it is partially offset by extended credit from suppliers.

ICRA notes that GBL is in the final stages of commercialising capex to increase its existing formulation capacity with a new unit in Indore (Madhya Pradesh) to meet additional demand. The company is in the process of applying for approval from various regulatory bodies, including the USFDA, for the new unit, with approvals and sales expected in the medium term. Until then, the company plans to serve the domestic market from this unit. Going forward, the company's ability to achieve healthy capacity utilisation levels with corresponding returns by scaling up its new unit is a key rating monitorable.

The Stable outlook on the rating reflects ICRA's opinion that GBL's credit profile will remain supported by its stable business profile and the expectation of favourable demand for its existing products, along with anticipated incremental sales from the enhanced capacities planned in the near term.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the pharmaceutical industry – The promoters have extensive experience, and the company has an established track record in the pharmaceutical formulation and contract manufacturing industry spanning over five decades. Over the period, GBL has developed established relationships with its customers, entailing repeat business.

Diversified product portfolio across segments including pharmaceutical formulations, bulk drugs and herbal formulations – GBL manufactures pharmaceutical and herbal formulations, APIs/bulk drugs as well as consumer/personal care products such as sanitary napkins and anti-stretch mark creams. The product portfolio remains diversified across therapeutic segments such as antifungal, anti-infective, antibiotic, anaesthetic, and fertility. Within the formulation segment, the company caters to various dosage forms such as tablets, capsules, ointments, syrups, lyophilised and liquid injections. However, injectables (liquid and lyophilised) remain its key revenue contributor, forming ~75- 80% of the company's revenues in the past few fiscals, followed by APIs (5-10%), the consumer care division and others. Within the injectable segment, the company also carries out contract manufacturing for leading brands in the domestic and international markets, in addition to direct sales to hospitals/physicians.

Capital structure supported by equity infusion and debt prepayment; healthy debt protection metrics – GBL's capital structure improved in FY2024, driven by an equity infusion of Rs. 99.99 crore through preferential allotment. The equity infusion was utilised to prepay long-term debt and reduce working capital borrowing, leading to improved leverage metrics. Consequently, the gearing ratio improved to 0.6 times in FY2024 from 1.0 times in FY2023. Coverage metrics, such as TD/OPBDITA, also improved to 2.2 times in FY2024 from 2.4 times in FY2023. With the revenues from the new capex expected to commence in the current fiscal year, debt protection metrics such as DSCR and interest coverage are projected to improve from the current levels of 3.9 times and 9.6 times, respectively.

Top line expected to improve in near to medium term post capitalisation of Indore unit – With the commercialisation of the Indore plant expected by August 2024, the top line is expected to get a boost in the near to medium term, primarily to serve the domestic market initially, until approvals from foreign regulatory bodies, including the USFDA. Further, this is expected to allow the Navsari plant to focus on more on export markets, as it holds approvals from various regulatory bodies, including WHO GMP, EU GMP, and countries in Africa and Latin America. Over the medium term, with plans to export to the USA from the Indore plant, GBL's revenues are expected to scale up significantly.

Credit challenges

Intense competition in formulations industry, commensurate returns from capex in Indore remains critical for credit profile – The domestic formulation industry faces stiff competition from numerous contract manufacturers, multinational companies as well as established domestic brands, with some players also having a pan India presence. The intense competition in the industry keeps revenue growth and margins under check. The total project cost is ~Rs. 340 crore, which was funded through term loans, equity infusions and internal accruals. Although the construction risk is mitigated, given the expected commercialisation from August 2024, GBL's ability to achieve healthy capacity utilisation levels with commensurate returns through desired scaling up will be critical and remain a key monitorable.

Profitability susceptible to volatility in raw material prices and foreign currency exchange rates – With limited control over the prices of its key inputs, GBL's profitability remains exposed to volatility in raw material prices. Although the pricing for its contract manufacturing revenues is based on a fixed cost conversion model, limiting the volatility risk. With the presence of a sizeable import volume, its profitability remains vulnerable to fluctuations in foreign currency exchange rates. However, this risk is somewhat offset by a natural hedge through its export sales.

Working capital intensive nature of operations – The business remains working capital intensive, owing to the long credit period extended to its customers, although partially offset by the extended credit period from suppliers. The company's receivable cycle was extended to ~150 days in FY2024 (109 days in FY2023) due to its shift in strategy to tertiary sales (direct sales to hospitals and doctors) from primary billing (sale to Stockists) to have better control over the selling process. Given the shift, the working capital intensity is expected to increase in the near term until the nuances of new sales channels are stabilised.

Operations exposed to regulatory restrictions – The operations remain exposed to regulatory restrictions, in terms of pricing caps, in domestic markets and product/facility approvals in export destinations. With increasing focus on exports, ICRA notes that timely product and facility approval/renewal in various semi-regulated/regulated markets remains critical for the growth of exports going forward.

Environment and Social Risks

Environmental considerations: The company is equipped with an effluent treatment plant (ETP) and multi-effect evaporator (MEE) to treat effluent water as per standard norms and zero liquid discharge that effectively prevents water pollution. In addition, the company uses briquettes, an environmentally friendly fuel, for its boiler and other provisions to avoid air emissions, thus maintaining a pollution-free environment. The company files half-yearly environment clearance reports with the Ministry of Environment, Forest and Climate Change of India (MOEF) and Climate Change (CC) authority. Emissions/ waste generated by the company are within the permissible limits prescribed by the Central Pollution Control Board (CPCB)/ State Pollution Control Board (SPCB).

Social considerations: As a part of the pharmaceutical industry, the company faces high social risks related to product safety and the associated litigation risks, access to qualified personnel for R&D and process engineering, and the maintenance of high manufacturing compliance standards. Further, Government interventions related to price caps/controls for the formulation segment also remain a social risk faced by entities in the pharmaceutical industry. GBL has instituted a social accountability policy, which prohibits any form of child labour, forced labour, discrimination or harassment of any nature and respects the freedom of association of its workmen. Its Employee Code of Conduct guides employees and ensures compliance with laws, rules and regulations that govern the organisation's business activities.

Liquidity position: Adequate

The company's liquidity position remains adequate, backed by healthy cash accruals of Rs. 110-160 crore over FY2025-27, against repayments of Rs. 20-25 crore. The average fund-based utilisation for the last 12 months stood at 57%, providing a buffer of Rs. 52 crore as of June 2024 end. Over the medium term, the internal accruals are expected to cover capex, debt repayments and incremental working capital requirements.

Rating sensitivities

Positive factors – Significant improvement in scale of operations, improvement in margins, and efficient working capital management, leading to an overall improvement in financial risk profile and liquidity position on a sustained basis.

Negative factors – Pressure on the ratings could arise with a significant decline in revenues or material deterioration in margins or stretch in the working capital cycle, leading to a weakening of the financial/liquidity profile. The lack of commensurate returns from the Indore plant, exerting pressure on the overall coverage metrics, will also be a negative rating trigger. Specific credit metrics, which may lead to a downgrade will include TD/OPBDITA of more than 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Pharmaceuticals
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

GBL was incorporated in 2000 as a public limited company and is listed on the BSE. It is engaged in manufacturing and marketing pharmaceutical formulations in various dosage forms, such as injectables, syrups, ointments and lotions. It is also backward integrated into manufacturing APIs/ bulk drugs, some portion of which it captively consumes. It also operates in the herbal formulations and consumer/ personal care sectors, producing items such as roll-ons, and anti-stretch mark creams. However, injectables (liquid and lyophilised) remain its key revenue contributor, forming ~75-80% of its revenues in the past few fiscals, followed by bulk drugs and APIs (10-15%). Its manufacturing plants are located at Navsari in Gujarat (injectables and API) and at Belgaum in Karnataka (API and herbal formulations). The company is also in the near-completion stages of commercialising its Indore plant, which will result in the enhancement of its capacities.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	690.6	806.7
PAT	79.7	86.1
OPBDIT/OI	19.9%	18.4%
PAT/OI	11.5%	10.7%
Total outside liabilities/Tangible net worth (times)	1.5	1.1
Total debt/OPBDIT (times)	2.4	2.2
Interest coverage (times)	16.7	9.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				1-Aug-24	30-Aug-23	24-Jun-22	-
1	Working capital facilities	Long term	10.00	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2	Letter of Credit	Short term	35.00	[ICRA]A2+	[ICRA]A2	[ICRA]A2	-
3	Bank Guarantee	Short term	5.00	[ICRA]A2+	[ICRA]A2	[ICRA]A2	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Working capital facilities	Simple
Short-term – Non-fund based – Letter of credit	Very simple
Short Term – Non-fund based – Bank guarantee	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long Term – Fund Based – working capital facilities**	NA	NA	NA	10.00	[ICRA]A-(Stable)
NA	**Short Term – Non Fund Based – Letter of Credit**	NA	NA	NA	35.00	[ICRA]A2+
NA	**Short Term – Non Fund Based – Bank Guarantee**	NA	NA	NA	5.00	[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545300
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 45964318
ksrikumar@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Roshan Dugar
+91 20 6606 9924
roshan.dugar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches