

March 05, 2021

Gufic Biosciences Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term– Fund-based Working Capital	8.00	[ICRA]BBB (Stable); assigned
Short -term – Letter of Credit	37.00	[ICRA]A3+; assigned
Short -term – Bank Guarantee	5.00	[ICRA]A3+; assigned
Total	50.00	

*Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings, ICRA has consolidated the financial risk profile of Gufic Biosciences Limited and Gufic Lifesciences Private Limited as its merger is currently under process and the entities are owned and managed by the same promoters and are involved in related lines of business.

The assigned ratings take into account the extensive experience of the promoters, the established track record of the Gufic Group in the pharmaceutical formulations industry spanning more than five decades and the moderate financial profile of the Group, characterised by moderate capital structure, above average debt-protection indicators and adequate liquidity. The ratings also factor in the Group's diversified portfolio, with presence in pharmaceutical and herbal formulations, Active Pharmaceutical Ingredients (API's) as well as contract manufacturing for several domestic and international companies. The therapeutic coverage is spread across segments such as antifungal, anti-infective, antibiotic, anaesthetic, fertility etc.

The ratings are, however, constrained by the vulnerability to changes in Government policies related to price control as well as the intense competition in the industry, which limits the Group's revenue growth in the domestic market and constraints its pricing flexibility. The ratings also consider the high working capital intensity of the Group, owing to the long credit period extended to its customers, coupled with moderate inventory requirements, though partially offset by extended credit period received from suppliers.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the Group will continue to benefit from the extensive experience of its promoters in the pharmaceutical industry and is likely to witness revenue growth in the near to medium term. The revenue growth will be backed by stable demand conditions for its existing products, incremental sales from its new products, supported by enhanced capacities.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established customer relationships - The promoters have extensive experience and the Group (Gufic Biosciences Limited and Gufic Lifesciences Private Limited) has an established track record in the pharmaceutical formulation and contract manufacturing industry spanning more than five decades. Over the period, the Group has developed an established relationship with its customers, ensuring repeat business.

Diversified product profile – The group manufactures pharmaceutical and herbal formulations, active pharmaceutical ingredients/bulk drugs as well as consumer/personal care products such as sanitary napkins, anti-stretch mark creams etc. The product portfolio remains diversified and is spread over therapeutic segments such as antifungal, anti-infective, antibiotic, anaesthetic, fertility etc. Within the formulation segment the group caters to various dosage forms such as tablets, capsules, ointments, syrups, lyophilised and liquid injections. However, injectables (liquid and lyophilized) remain its key revenue

contributor forming ~75% of its revenues in the past few fiscals, followed by APIs forming 15% and the balance by herbal formulations. For the injectable segment, the company also carries out contract manufacturing for leading brands in the domestic and international market in addition to direct sales to hospitals/physicians.

Above average financial risk profile - The Group's operating profitability remained moderate at 13.50%-13.85% in FY2019 and FY2020. It improved to 15.59% in H1 FY2021 owing to successful product launches, increased sales of higher value-added products, mainly from its critical care division, as well as lower employee costs as well as other fixed expenses due to the pandemic fuelled lockdown resulting in lower expenses pertaining to travelling, training etc. Owing to the debt funded capex carried out for capacity expansion coupled with high working capital requirements, the group's debt levels remained high at Rs. 126.88 crore in FY2020 and Rs. 140.49 crore in September 30, 2020. The same coupled with a moderate net worth base of Rs. 132.29 crore as on March 31, 2020 led to a moderate capital structure, as reflected in a gearing of 0.94 times and TOL/TNW of 1.90 times as on September 30, 2020 and above average debt-protection metrics (Interest cover at 4.17 times, Total Debt/OPBDITA at 2.14 times as on September 30, 2020).

Credit challenges

Moderate scale of operations amid intense competition in formulations industry - The Group remains a moderate-sized player in the formulations industry and reported a modest growth in FY2020, with an operating income of Rs. 378.07 crore in FY2020 compared to Rs. 350.69 crore in FY2019. The domestic generic formulation industry faces stiff competition from numerous contract manufacturers, MNCs as well as established domestic brands. The intense competition restricts the Group's revenue growth and pricing flexibility. However, with increased contribution of higher value-added products, mainly from the critical care segment, the operating income and profitability witnessed an improvement in 9M FY2021.

High working capital intensity of operations - The group's working capital intensity remained high, as reflected by the NWC/OI of 31% in FY2020 and 34% in H1 FY2021, owing to high credit period of ~90 days extended to its customers, coupled with moderate inventory holding requirements, though partially offset by the high credit period received from its suppliers. The working capital limit utilisation remained high in the past with its limits being utilised up to 87%-100%, however owing to faster recovery in receivables and efficient inventory management, the limit utilisation has subsequently lowered to 70% in October 2020 end and further to 33% in January 2021 end.

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.

Profitability susceptible to volatility in raw material prices and foreign currency exchange rates: With limited control over the prices of its key inputs, the company's profitability remains exposed to volatility in raw material prices. However, in the past, it has demonstrated the ability to pass on any increase to its customers, thereby limiting the exposure to some extent. Moreover, the pricing for its contract manufacturing revenues are based on a fixed cost conversion model limiting the volatility risk. With the company importing ~35%-45% of its raw material requirements, its profitability also remains vulnerable to fluctuations in foreign currency exchange rates, to the extent unhedged.

Liquidity position: Adequate

Fund flow from operations have remained positive over the past few years supported by moderate profitability, however given the high working capital and capex requirements, the free cash flows remain negative. The liquidity position of the company remains adequate with free cash/liquid investments of Rs.4.25 crore and availability of cushion in form of undrawn working capital limits of Rs. 9.46 crore on September 30, 2020 and Rs. 60.92 crore as on January 28, 2021. The company has repayment obligations of ~Rs. 4.00 crore per annum. Its cash flows are anticipated to remain sufficient to meet the repayment obligations and incremental working capital requirements.

Rating sensitivities

Positive factors –

- Significant growth in scale whilst improving profitability
- Improvement in liquidity position

Negative factors –

- Negative pressure on ratings could arise if there is any significant decline in revenues or material deterioration in margins
- Stretch in working capital cycle or higher than anticipated capital expenditure impacts its liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the Pharmaceutical Industry Consolidation and Rating Approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	Consolidation For arriving at the ratings, ICRA has consolidated the financial risk profile of Gufic Biosciences Limited and Gufic Lifesciences Private Limited as its merger is currently under process and the entities are owned and managed by the same promoters and are involved in related lines of business.

About the company

Gufic Biosciences Limited was incorporated in the year 2000 as a public limited company and is listed on the BSE. It is engaged in manufacture and marketing of pharmaceutical formulations in various dosage forms such as injectables, syrups, ointments, lotions etc. It is also backward integrated to manufacture active pharmaceutical ingredients/bulk drugs, some portion of which it captively consumes. It also has presence in the herbal formulations and consumer/personal care products such as sanitary napkins, roll on's, stretch mark creams etc. However, injectables (liquid and lyophilized) remain its key revenue contributor forming ~75% of its revenues in the past few fiscals, followed by APIs forming 15%. Its manufacturing plants are located at Navsari in Gujarat (injectables and API) and Belgaum in Karnataka (API and Herbal formulations).

Gufic Lifesciences Private Limited, an associate company, commenced commercial operations in the year 2015 with its product profile comprising lyophilised injectables which are manufactured at its EUGMP approved facility located in the same premises as Gufic Biosciences Limited at Navsari in Gujarat. The lyophilization capacity has been gradually augmented over the years from 6 lakh units in 2006 to 14.4 million units in 2012 to the current 48 million units. The companies are a part of the Gufic Group which is promoted by the Choksi Family, who have a vast experience in the pharmaceutical industry vide its associate company Gufic Pharma Private Limited, which was incorporated in 1970's. The merger between Gufic Biosciences Limited and Gufic Lifesciences Private Limited is currently under process.

Key financial indicators (audited)

	Standalone			Consolidated*		
	FY2019	FY2020	H1 FY2021*	FY2019	FY2020	H1 FY2021*
Operating Income (Rs. crore)	350.94	358.01	174.49	350.69	378.07	210.14
PAT (Rs. crore)	21.94	22.85	12.59	18.22	22.19	17.18
OPBDIT/OI (%)	13.15%	12.61%	14.35%	13.85%	13.81%	15.59%
PAT/OI (%)	6.25%	6.38%	7.21%	5.20%	5.87%	8.18%
Total Outside Liabilities/Tangible Net Worth (times)	2.70	2.71	2.38	2.11	2.11	1.90
Total Debt/OPBDIT (times)	2.12	2.67	2.70	2.15	2.43	2.14
Interest Coverage (times)	4.54	3.55	3.79	4.39	3.75	4.17

*Provisional numbers, Consolidation has been done by ICRA basis estimates and discussion with the company; for H1FY2021 numbers the intercompany transactions were not available, hence consolidated numbers are derived via addition. All ratios as per ICRA calculations

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
									Mar 05, 2021
1	Working Capital	Long-term	8.00	-	[ICRA]BBB (Stable)	-	-	-	
2	Letter of Credit	Short-term	37.00	-	[ICRA]A3+	-	-	-	
3	Bank Guarantee	Short-term	5.00	-	[ICRA]A3+	-	-	-	

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Working Capital	NA	NA	NA	8.00	[ICRA]BBB (Stable)
NA	Letter of Credit (LC)	NA	NA	NA	37.00	[ICRA]A3+
NA	Bank Guarantee (BG)	NA	NA	NA	5.00	[ICRA]A3+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	GBL Ownership	Consolidation Approach
Gufic Biosciences Limited	100.00% (rated entity)	Full Consolidation
Gufic Lifesciences Private Limited (Group Company)	-	Full Consolidation

Source: GBL annual report FY2020

Note: ICRA has followed a consolidation approach for GBL and its group company Gufic Lifesciences Private Limited as the companies are currently under merger, share the common management and are engaged in related line of business with operational linkages.

ANALYST CONTACTS

K Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Suprio Banerjee

+91 22 6114 3443

supriob@icraindia.com

Sanket Thakkar

+91 79 4027 1528

sanket.thakkar@icraindia.com

Anuja Shah

+91 79 4027 1530

anuja.shah@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50



Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.