

July 14, 2022

Gopaldas Visram And Company Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term –Term Loans	23.23	23.42	[ICRA]BBB+(Stable); reaffirmed
Long-term – Cash Credit	28.50	28.50	[ICRA]BBB+(Stable); reaffirmed
Short-term – Non-fund Based limits	10.50	10.50	[ICRA]A2; reaffirmed
Unallocated Limits	1.01	0.82	[ICRA]BBB+(Stable)/[ICRA]A2; reaffirmed
Total	63.24	63.24	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation of Gopaldas Visram and Company Limited (GVCL) favourably factors in its established business position in the pharmaceutical and packaging industries, extensive experience of its promoters and its diversified product profile. Leveraging on these strengths, the company has established long-standing relationships with its key customers, which includes reputed Indian pharmaceutical companies. Additionally, the ratings continue to derive comfort from GVCL's comfortable financial profile, marked by adequate liquidity, a comfortable capital structure and coverage metrics. In line with the past trend, the company has reported steady revenue growth and internal accrual generation in FY2022, aided by diversification of its revenue stream from two key business segments and growing exports. This, coupled with relatively limited reliance on working capital debt, has continued to result in comfortable gearing levels and debt protection metrics.

GVCL is undertaking capital expenditure to set up a new packaging facility at Halol (Gujarat), which is likely to get commissioned by the end of the current fiscal. While this is expected to aid the company's revenue growth from FY2024 onwards, the same is contingent on timely commissioning and satisfactory scaling up of production at this facility.

The ratings, however, remain constrained by the working capital-intensive nature of the business resulting from the moderate credit period extended to customers and relatively higher inventory level maintained by the company, highly competitive intensity of the industry and susceptibility of operations to regulatory restrictions. ICRA also takes note of the sizeable customer concentration risk, as the top-three customers accounted for ~45% of the total revenues during the last two fiscals, although GVCL's long-standing relations with these customers mitigates the risk to an extent. Moreover, the profit margins remain vulnerable to the volatility in raw material prices.

The Stable outlook on the long-term rating reflects ICRA's opinion that GVCL 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.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in pharmaceutical industry – GVCL is a part of the Gopaldas Visram Group, which commenced operations in 1945. It was set up by the Late Gopaldas Visram Thakker and his son the Late Vallabhdas Gopaldas Thakker. At present, the company's operations are handled by the third and fourth generation of the Thakker family. The promoters have an experience of more than two decades in the pharmaceutical industry. Apart from GVCL, the Thakker family are promoters to other Group companies, which are also involved in contract manufacturing for the pharmaceutical and packaging industries. GVCL benefits from the extensive experience of the promoters in the pharmaceutical industry.

Diversified revenue streams catering to pharmaceutical and packaging segments – The company's operations are primarily bifurcated into two segments– pharmaceuticals and packaging. The pharmaceuticals segment contributes to almost 65-70% of the total revenues. Almost 90-95% of the revenues in the pharma segment is generated through contract manufacturing, which operates either on a principal-to-principal model, or a loan license model. Under the pharmaceutical segment, it offers almost ~150 products in liquid, semi-solid dosage and powder form. It includes a wide range of pharmaceutical products for human consumption, animal health care and cosmetic products. The top-five pharmaceutical products contribute to ~30% of the revenues of the pharma segment. Moreover, the manufacturing facility for the cosmetic segment is US FDA approved and contributes to almost 10% of the total revenue under the pharmaceutical segment. Under its packaging segment, GVCL is involved in manufacturing high-quality DMF-grade HDPE containers at its Goa unit, which has achieved US FDA accreditation. The packaging segment constitutes almost 30-35% of the total revenues, which indicates a diversified revenue stream and product portfolio for the company. Moreover, growing revenue contribution from exports adds to GVCL's revenue diversification.

Well-reputed clientele – GVCL caters to large number of reputed clients in the pharma segment, such as Virbac Animal Health India Pvt Ltd., Bliss GVS Pharma Ltd, Strides Pharma Science Ltd., Torrent Pharmaceuticals Ltd., Intas Pharmaceuticals Ltd. and Alkem Laboratories Ltd. Although the customer concentration remains high, the company's focus on quality has led to repeat orders from many of its key clients.

Comfortable financial risk profile characterised by steady revenue growth, comfortable capital structure and coverage indicators – GVCL has reported linear revenue increase with a CAGR of ~11.4% during FY2016-2022, led by steady increase in sales under both the pharma and packaging segments. The company reported revenue of Rs. 241.92 crore in FY2022 (on provisional basis) against Rs. 214.07 crore in FY2021. GVCL is also adding a new packaging facility in Halol (Gujarat), which is expected to get commissioned by the end of the current financial year and will support the company's revenue growth from FY2024 onwards. GVCL's operating margins have remained in the range of 16-20% during the last three years. However, the operating margins declined in FY2022 because of considerable raw material price volatility and increase in operational overheads. Notwithstanding the same, steady internal accrual generation and relatively moderate reliance on working capital borrowings have continued to result in a comfortable capital structure for the company. GVCL's net worth has increased to Rs. 152.66 crore as on March 31, 2022, from Rs. 52.25 crore as on March 31, 2016, owing to healthy profitability and retention of profits. Consequently, the company's gearing level has remained low at 0.22 times as on March 31, 2022, and coverage metrics have remained strong with interest cover of 15.46 times and DSCR of 4.24 times in FY2022. While some moderation in leverage levels and debt protection metrics is likely in FY2023 given the ongoing debt-funded capex towards the Halol facility, however, they are expected to remain comfortable.

Credit challenges

High working capital-intensive nature of business – The company provides credit of around 45-60 days to its customers and receives credit period of around 65-70 days from its suppliers, which came down to ~30 days in FY2022. This led to an increase in the working capital intensity in FY2022. GVCL has efficiently reduced its inventory holding days over time to cater to the

needs of its reputed customers in a timely manner. Moreover efficient working capital management has continued to result in moderate reliance on working capital lines sanctioned by the bank.

High customer concentration risk; repeat orders mitigate risk to an extent – The revenue contribution from its top-ten customers remained high in the range of 70-80% during the last two years. The top-three customers contributed to 45-50% of the total revenue during the last two years, which indicates a high customer concentration risk. However, extensive experience of the promoters in the industry resulted in strong business relationships with the customers, enabling repeat orders, which mitigates the risk to an extent.

Operations exposed to regulatory restrictions – The operations remain exposed to regulatory restrictions in terms of facility approvals required by most of the customers. The timely facility approval/renewal, along with stable socio-political environment, remains critical for direct/indirect sales in the various regulated and semi-regulated markets.

Intense competition which limits margin flexibility – The domestic generic formulations industry faces stiff competition from numerous contract manufacturers, MNCs as well as established domestic brands with a pan-India presence. The intense competition in the industry restricts GVCL's margin flexibility to an extent. Moreover, the profit margins also remain vulnerable to the volatility in raw material prices and foreign exchange rates.

Liquidity position: Adequate

GVCL is adding a new packaging facility in Halol (Gujarat), which is expected to get commissioned by the end of the current financial year. This capex is being funded through a mix of debt (Rs. 40 crore) and internal accruals (~Rs. 15 crore). GVCL has debt repayments of Rs. 8 – 11 crore p.a. during FY2023 to FY2025, and its internal accrual generation is expected to be more than sufficient to service the same, supported by satisfactory scale-up of production at the Halol facility. The company has sanctioned working capital limits of Rs 28.50 crore from banks. The average utilisation of the same stood at ~23% during the last 12 months ended March 2022. Considering the steady internal accrual generation and considerable buffer of undrawn bank lines, GVCL's liquidity profile remains adequate.

Rating sensitivities

Positive factors – ICRA could upgrade GVCL's ratings if it demonstrates a healthy growth in its scale and profit margins, while sustaining its liquidity profile and debt protection metrics. Additionally, satisfactory ramp-up of production in the upcoming Halol facility will also be a key rating upgrade factor.

Negative factors – Significant decline in revenues or profitability, or deterioration in liquidity profile would be the key factors for a downward trigger. A specific credit metric for a downgrade is if Total Debt/OPBITDA is more than 2.3 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the rated entity

About the company

GVCL is a part of the Gopaldas Visram Group, which was established in 1945 by the Late Gopaldas Visram Thakker and his son, the Late Vallabhdas Gopaldas Thakker. The company is involved in liquids, ointments, and personal care product formulation development and manufacturing for the pharmaceutical and cosmeceutical industries, as well as packaging products used for the pharma industry. Mr. Dinesh Thakker, Mr. Chandresh Thakker and Mr. Mukund Thakker, S/o. Mr. Vallabhdas Thakker are the key shareholders and the management of the company. It has two factory units and warehousing units under the pharma business in MIDC, Navi Mumbai and one manufacturing unit in Goa for the packaging business.

Key financial indicators

GVCL	FY2021 (Audited)	FY2022 (Provisional)
Operating Income (Rs. crore)	214.07	241.92
PAT (Rs. crore)	23.42	24.09
OPBDIT/OI (%)	20.70%	17.94%
PAT/OI (%)	10.94%	9.96%
Total Outside Liabilities/Tangible Net Worth (times)	0.84	0.80
Total Debt/OPBDIT (times)	0.68	0.78
Interest Coverage (times)	12.22	15.47

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	Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding (March 31, 2022)	Current Rating	Date and Rating in FY2022	Date and Rating in FY2021	Date and Rating in FY2020
					July 14, 2022	April 29, 2021	-	-
1	Term loan	Long-Term	23.42	22.05	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
2	Cash Credit	Long-Term	28.50	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
3	Letter of Credit/BG	Short-Term	10.50	-	[ICRA]A2	[ICRA]A2	-	-
4	Unallocated Limits	Long-Term/Short-Term	0.82	-	[ICRA]BBB+ (Stable)/[ICRA]A2	[ICRA]BBB+ (Stable)/[ICRA]A2	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple

Cash Credit	Simple
Letter of Credit	Very Simple
Unallocated Limits	NA

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: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term loan 1	FY2017	NA	FY2024	2.37	[ICRA]BBB+ (Stable)
NA	Term loan 2	FY2018	NA	FY2025	5.08	[ICRA]BBB+ (Stable)
NA	Term loan 3	FY2018	NA	FY2023	0.63	[ICRA]BBB+ (Stable)
NA	Term loan 4	FY2019	NA	FY2023	1.18	[ICRA]BBB+ (Stable)
NA	Term loan 5	FY2021	NA	FY2027	3.12	[ICRA]BBB+ (Stable)
NA	ECLGS	FY2021	NA	FY2024	5.94	[ICRA]BBB+ (Stable)
NA	Term loan 6	FY2022	NA	FY2025	3.60	[ICRA]BBB+ (Stable)
NA	Term loan 7*	-	-	-	1.50	[ICRA]BBB+ (Stable)
NA	Cash Credit	NA	NA	NA	28.50	[ICRA]BBB+ (Stable)
NA	Letter of Credit/BG	NA	NA	NA	10.50	[ICRA]A2
NA	Unallocated Limits	NA	NA	NA	0.82	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: GVCL/**Proposed and yet to be disbursed.

Annexure-2: List of entities considered for consolidated analysis - NA

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