August 30, 2023

Gufic Biosciences Limited: Ratings reaffirmed

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	8.00	[ICRA]BBB+ (Stable); reaffirmed
Short-term – Non-fund based – Letter of credit	37.00	37.00	[ICRA]A2; reaffirmed
Short Term – Non-fund based – Bank guarantee	5.00	5.00	[ICRA]A2; reaffirmed
Total	**50.00**	**50.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings for Gufic Biosciences Limited (GBL) continues to consider the healthy financial profile for the company characterised by above-average scale of operations and healthy operating margins leading steady cash accruals over the last three fiscals. Although the company reported moderation in revenues in FY2023 over FY2022 on account of absence of Covid related drug sales, which boosted its revenue in FY2022, it reported healthy growth of 18% in Q1 FY2024 over Q1 FY2023 on the back of healthy demand in its formulation business across its key therapeutic areas. The ratings also continue to draw comfort from the company's favourable capital structure supported by a healthy net worth base and above-average coverage indicators along with adequate liquidity in place as on March 31, 2023. The ratings also continue to favourably factor in the extensive experience of GBL's promoters in the pharmaceutical business, its established customer profile with repeat orders and well diversified portfolio, with presence in pharmaceutical formulation, herbal formulations, bulk drugs and consumer care products.

The ratings, however, remain constrained by the susceptibility of GBL's profitability to movements in prices of active pharmaceutical ingredients (APIs; raw materials) and changes in Government policies, mainly related to price control. Further, the intense competition in the domestic formulations industry with both organised and unorganised players continue to keep revenues and margins under check. The ratings also remain constrained by the high working capital intensity of operations, owing to the long credit period extended to its customers; although partially offset by extended credit period from suppliers. ICRA notes that GBL is currently in the midst of sizable debt-funded capex to increase its existing formulation capacity by adding a new formulation unit in Indore (Madhya Pradesh) to address the additional demand. The total cost of the project is estimated at Rs. 336 crore, which is funded through term loans of ~Rs. 180 crore and the rest through internal accruals. The construction risk, however, is mitigated given the likely commercialisation by October 2023. Going ahead, the company's ability to achieve healthy capacity utilisation levels with commensurate returns, through desired scaling up at reasonable size without any time and cost overruns, would remain critical and, hence, will remain a key monitorable.

The Stable outlook on the rating reflects ICRA's opinion that the GBL will continue to benefit from the extensive experience of its promoters in the pharmaceutical industry and stable demand conditions for its existing products and expected incremental sales supported by 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 more than 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 and is spread over 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 lyophilized) remain its key revenue contributor, forming ~75- 80% of its revenues in the past few fiscals, followed by APIs (10-15%), the consumer care division and others. For 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.

Comfortable capital structure and healthy debt protection metrics – GBL's capital structure remains comfortable with a low gearing level (as on March 31, 2023), aided by a healthy net worth base. Given the ongoing debt-funded capex in the current fiscal, the debt protection metrics is expected to moderate in FY2024 over FY2023; however, it is expected to remain at healthy levels given expected scale up in operations in FY2024 and healthy margins levels. With long-term debt expected to peak in FY2024 and swing down thereafter, the debt protection metrics are expected to improve from FY2025 levels, with revenues from new capex kicking in.

Credit challenges

Intense competition in formulations industry, commensurate returns from ongoing capex remains critical for credit profile – The domestic formulation industry faces stiff competition from numerous contract manufacturers, multi-national companies as well as established domestic brands, with some of these players also having a pan India presence. The intense competition in the industry keeps revenue growth and margins under check. Also, GBL is currently in the middle of a debt-funded capex to increase its existing formulation capacity by adding a new unit at Indore, Madhya Pradesh. The total cost of the project is estimated at Rs. 336 crore, which is funded through term loans of ~Rs. 180 crore with the rest through internal accruals. Although the construction risk is mitigated, given the expected commercialisation from October 2023, GBL's ability to achieve healthy capacity utilisation levels with commensurate returns, through desired scaling up would remain critical and, hence, will 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 sizable import, its profitability also remains vulnerable to fluctuations in foreign currency exchange rates, to the extent of 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; though partially offset by extended credit period from suppliers. Further, the inventory levels were elevated at 142 days in FY2023 (77 days in FY2022) on account of stocking up of raw materials to avoid any potential supply chain disruptions.

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 employs briquettes, an environmentally friendly fuel, for its boiler and other provisions in place to avoid emissions into the air, 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 given by Central Pollution Control Board (CPCB)/ State Pollution Control Board (SPCB).

Social considerations: GBL has instituted a social accountability policy, which prohibits any form of child labour, forced labour, discrimination or harassment of any nature, and respects freedom of association of its workmen. Its Employee Code of Conduct Policy guides employees in ensuring honest and ethical conduct, maintaining a corporate climate in which the integrity and dignity of each individual is valued and promoted, and ensuring compliance with laws, rules and regulations that govern the organisation's business activities.

Liquidity position: Adequate

The liquidity position of the company remains adequate with sizable cash balance of ~Rs. 47 crore on March 31, 2023, and availability of cushion in the form of sizable undrawn working capital limits. Further, the company has enhanced its working capital limits by Rs. 40 crore, which is expected to provide additional comfort to the liquidity. The debt repayment for term loans taken towards the ongoing capex is set to commence from FY2025 and is expected to be sufficiently covered by internal cash accruals.

Rating sensitivities

Positive factors – Significant improvement in scale of operations, with improvement in margins, leading to overall improvement in financial risk profile and liquidity position. Specific credit metrics, which may lead to an upgrade, will include TD/OPBDITA of less than 2.3 times, on a sustained basis.

Negative factors – Negative pressure on ratings could arise if there is any significant decline in revenues or material deterioration in margins or stretch in working capital cycle leading to weakening of the financial/liquidity profile. Lack of commensurate returns from the ongoing capex, which puts 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 2.8 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	Standalone

About the company

Gufic Biosciences Limited 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 is also present in the herbal formulations and consumer/ personal care products such as sanitary napkins, roll-ons, and stretch mark creams. However, injectables (liquid and lyophilized) remain its key revenue contributor forming ~75-80% of its revenues in the past few fiscals, followed by APIs (10-15%). Its manufacturing plants are located at Navsari in Gujarat (injectables and API) and at Belgaum in Karnataka (API and herbal formulations).

Key financial indicators (audited)

	FY2022	FY2023
Operating income	779.2	690.6
PAT	95.8	79.7
OPBDIT/OI	19.0%	19.9%
PAT/OI	12.3%	11.5%
Total outside liabilities/Tangible net worth (times)	0.9	1.5
Total debt/OPBDIT (times)	0.4	2.4
Interest coverage (times)	27.6	16.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Aug 30, 2023	Jun 24, 2022	-	Mar 05, 2021
1	**Working capital facilities**	Long term	8.00	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**-**	**[ICRA]BBB (Stable)**
2	**Letter of Credit**	Short term	37.00	-	**[ICRA]A2**	**[ICRA]A2**	**-**	**[ICRA]A3+**
3	**Bank Guarantee**	Short term	5.00	-	**[ICRA]A2**	**[ICRA]A2**	**-**	**[ICRA]A3+**

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	8.00	[ICRA]BBB+(Stable)
NA	Short Term – Non Fund Based – Letter of Credit	NA	NA	NA	37.00	[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

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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

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