

November 23, 2023

Gopaldas Visram And Company Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	24.24	38.27	[ICRA]BBB+ (Stable); reaffirmed/ assigned for enhanced amount
Long-term – Fund-based – Cash credit	28.50	28.50	[ICRA]BBB+ (Stable); reaffirmed
Short-term – Non-fund based limits – Others	10.50	10.50	[ICRA]A2; reaffirmed
Total	63.24	77.27	

*Instrument details are provided in Annexure-I

Rationale

The rating action for Gopaldas Visram and Company Limited (GVCL) factors in the company's comfortable financial risk profile marked by steady cash accrual generation, comfortable capital structure and adequate liquidity position. Even though GVCL reported a marginal decline in its revenue in FY2023, its accrual generation was supported by relatively stable operating margins. The company has recently set up a new facility at Halol (Gujarat) to manufacture high-density polyethylene (HDPE) bottles for its pharmaceutical packaging business. As the facility was recently commissioned with customer validations under process, revenue contribution from the same is expected to be modest in FY2024. However, material revenue contribution from the facility is likely from FY2025 onwards, supporting GVCL's revenue growth over the medium term. Accordingly, satisfactory scale-up of operations at this facility will remain monitorable. There has been some moderation in the company's debt protection metrics in FY2023 and FY2024 due to the debt-funded capex undertaken for setting up the facility. However, GVCL's credit profile is expected to remain comfortable aided by healthy internal accruals and no major increase in debt levels over the near to medium term. The ratings also continue to factor in the extensive experience of the promoters and the company's established business position in the pharmaceutical and packaging industries, which also provide revenue diversification benefits. Leveraging on the same, the company has developed a diversified product portfolio and established long-standing relations with its key customers, which include reputed Indian pharmaceutical companies.

The ratings, however, remain constrained by the company's moderate scale of operations relative to the size of the industry and the working capital-intensive nature of the business. Moreover, GVCL's profitability is also exposed to the high competitive intensity of the industry and adverse fluctuations in raw material prices and forex rates. Further, the company's operations are susceptible to regulatory restrictions in the form of timely approvals and audits by the regulatory authorities. ICRA also notes the high customer-concentration risk as the top 10 customers accounted for 70-75% of its revenues in the recent two fiscals. However, the same is mitigated to an extent by the company's established relationships with these customers.

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, its comfortable credit profile and scaling up of production at its recently commissioned facility in Halol.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the pharmaceutical industry – GVCL is a part of the Gopaldas Visram Group, which commenced operations from 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 generations of the Thakker family.

Apart from GVCL, the Thakker family are promoters of other Group companies, which are also involved in contract manufacturing for the pharmaceutical and packaging industries. The promoters have an experience of more than two decades in the pharmaceutical industry, which has supported the company's operational profile over the years.

Diversified revenue streams catering to the pharmaceutical and packaging segments – The company's operations are primarily bifurcated into two segments—pharmaceuticals and packaging. The pharmaceuticals segment accounts for ~70% of its total revenues, while the remaining is attributed to the packaging segment. Under the pharmaceutical business, 90-95% of the revenues are generated through contract manufacturing, which operates either on a principal-to-principal model, or a loan-license model. The company has a wide base of ~150 products in liquid, semi-solid dosage and powder forms for human consumption, animal health care, cosmetic products, and others. Under its packaging segment, GVCL is involved in manufacturing drug master file (DMF) grade HDPE bottles/caps for several reputed pharmaceutical companies. The company operates its packaging business from its United States Food and Drug Administration (US FDA) certified facility at Goa and the recently set-up facility at Halol.

Well-reputed clientele – GVCL caters to a large number of reputed clients from the domestic pharmaceutical industry, such as Virbac Animal Health India Private Limited, Bliss GVS Pharma Limited, Strides Pharma Science Limited, Torrent Pharmaceuticals Limited, Intas Pharmaceuticals Limited, and Alkem Laboratories Limited, among others. Although the customer concentration remains high, the company's focus on quality has led to repeat orders from most of its key clients.

Comfortable financial risk profile, however, debt-funded capex likely to result in moderation over the near term – GVCL has a comfortable financial risk profile, as marked by steady internal accrual generation, comfortable capital structure and coverage metrics, and adequate liquidity position. While the company's revenues witnessed some moderation in FY2023, its operating profit margin remained stable supported by product-mix benefits. Moreover, scaling up of operations at the recently commissioned packaging facility in Halol is expected to support GVCL's revenue growth over the medium term. The company's capital structure remains comfortable supported by steady accretion to reserves and relatively low-debt levels. Despite some moderation in FY2023 and FY2024 due to the recent debt-funded capex, debt coverage metrics remain comfortable with total debt/OPBITDA and total outside liabilities/total net worth (TOL/TNW) of around 1.0 time over the medium term.

Credit challenges

Moderate scale of operations – Despite steady revenue growth over the years, GVCL's scale of operations remains moderate with respect to the size of the industry. This is also partly due to some of the revenue being generated by the job-work activity carried out by the company for some of its customers. However, the ramp up of operations at its recently-commissioned Halol facility is expected to support the company's revenue growth over the medium term.

High customer concentration risk, although established relationships with key customers mitigate the risk to an extent – The company remains exposed to a high customer-concentration risk as its top 10 customers generated 70-75% of its revenues during the last two years. However, the extensive experience of the promoters in the industry resulted in strong business relationships with these customers, enabling repeat orders, which mitigate the risk to an extent.

Operations exposed to regulatory restrictions – Given that most of GVCL's revenue is generated through direct and indirect exports, the company's operations remain exposed to regulatory restrictions in terms of facility approvals by various regulatory agencies. The timely facility approval/renewal along with a stable macro-economic environment, remains key for direct/indirect sales in the various regulated and semi-regulated markets.

Intense competition limits margin flexibility to an extent – The domestic generic formulations industry faces stiff competition from numerous contract manufacturers, MNCs as well as established domestic brands with a pan India presence. This intense competition in the industry coupled with exposure to raw material price volatility and forex rates restrict GVCL's margin flexibility to an extent.

Liquidity Position: Adequate

GVCL's liquidity position is adequate and is supported by steady accrual generation, free cash and balances of Rs. 6.6 crore, as on September 2023, and sufficient buffer in its working capital limits of ~Rs. 10 crore as on September 2023. The company has debt repayments of Rs. 5-8 crore per annum (p.a.) during FY2024-FY2026. However, its internal accrual generation is expected to be more than sufficient to service the same.

Rating Sensitivities

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

Negative factors – Significant decline in revenues or profitability, or deterioration in liquidity profile on a sustained basis 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	Standalone

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 industries, as well as packaging products, used for the pharma industry. Mr. Dinesh Thakker, Mr. Chandresh Thakker and Mr. Mukund Thakker, the sons of Mr. Vallabhdas Thakker, are the key shareholders and the management of the company. GVCL operates from its two factory units and warehousing units under the pharma business in MIDC, Navi Mumbai, and two manufacturing units in Goa and Halol for its packaging business.

Key financial indicators

GVCL - Standalone	FY2021	FY2022	FY2023*
Operating income	214.6	244.0	235.5
PAT	23.4	24.5	33.4
OPBDITA/OI	20.9%	18.9%	18.6%
PAT/OI	10.9%	10.0%	14.2%
Total outside liabilities/Tangible net worth (times)	0.8	0.8	0.8
Total debt/OPBDITA (times)	0.7	0.7	1.2
Interest coverage (times)	12.4	15.8	13.1

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore; All ratios as per ICRA's calculations; *Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY 2024)				Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on September 30, 2023 (Rs. crore)	Date & rating in FY 2024		Date & rating in FY 2023	Date & rating in FY 2022	Date & rating in FY 2021	
				Nov 23, 2023	Oct 30, 2023				
1 Fund-based – Term loan	Long-term	38.27	30.30	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	
2 Fund-based – Cash credit	Long-term	28.50		[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)		
3 Non-fund based limits – Others	Short-term	10.50		[ICRA]A2	[ICRA]A2	[ICRA]A2	[ICRA]A2		
4 Unallocated limits	Long-term/ Short-term	-	-	-	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Term loan	Simple
Fund-based – Cash credit	Simple
Non-fund based limits – Others	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	Fund-based – Term loan	FY2017	~9.0 - 9.5%	FY2026	38.27	[ICRA]BBB+ (Stable)
NA	Fund-based – Cash credit	NA	NA	NA	28.50	[ICRA]BBB+ (Stable)
NA	Non-fund based limits – Others	NA	NA	NA	10.50	[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.

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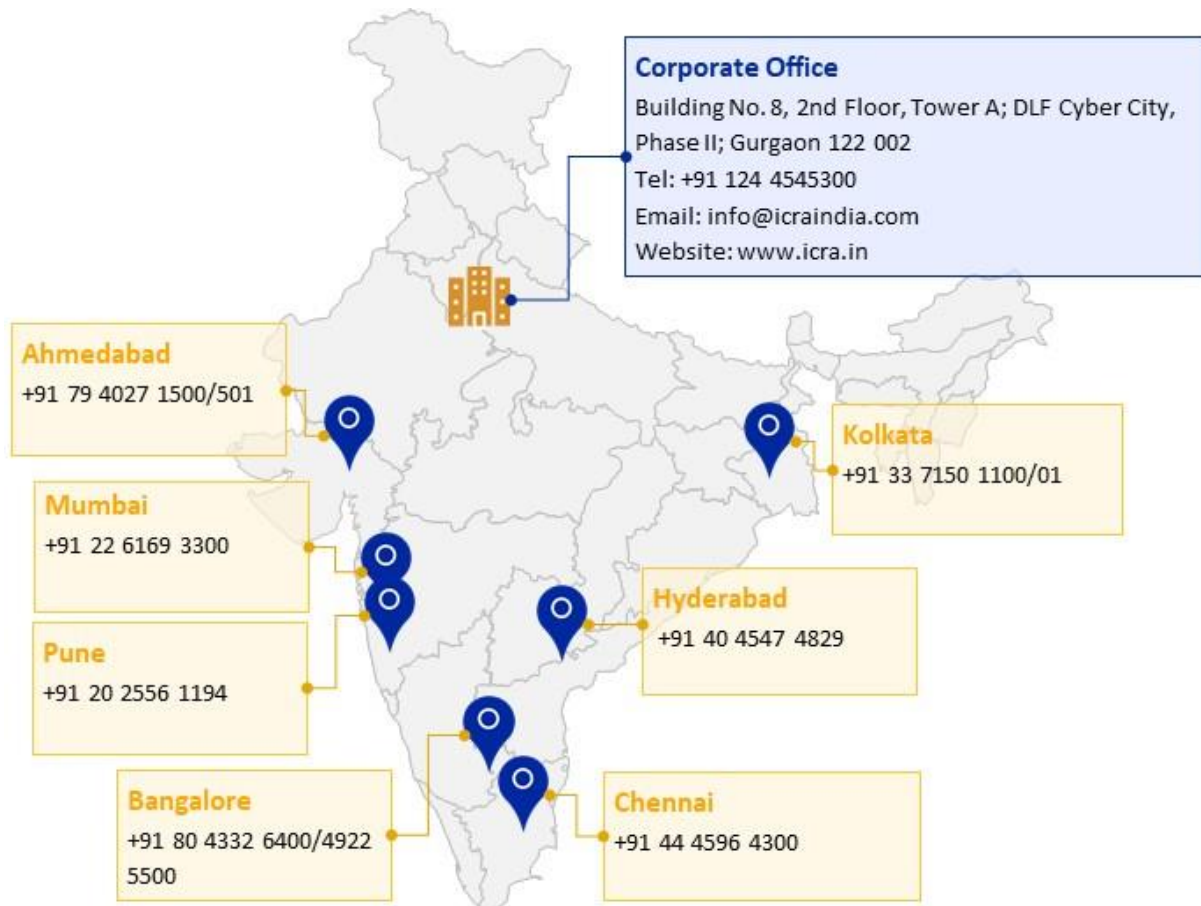
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