

**CARE/HO/RL/2018-19/5357**

**Mr. D.B.Roonghta,**  
**C.F.O,**  
**Gufic Biosciences Limited,**  
S.M. House, 11 Sahakar Road,  
Vileparle (East),  
Mumbai – 400 057

April 1, 2019

**Confidential**

Dear Sir,

**Credit rating for bank facilities**

On the basis of recent developments including operational and financial performance of your company for FY18 (audited) and 9MFY19 (Unaudited), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities (Cash Credit)	82.00 (enhanced from 60.00)	<b>CARE BBB-</b> <b>[Triple B Minus]</b> <b>(Under Credit watch with developing implications)</b>	Continues on credit watch with developing implications
Long-term Bank Facilities (Term Loan)	5.43 (reduced from 7.00)	<b>CARE BBB-</b> <b>[Triple B Minus]</b> <b>(Under Credit watch with developing implications)</b>	Continues on credit watch with developing implications
Long term/ Short term bank facilities (fund based and non-fund based)	15.57 (reduced from 36.00)	<b>CARE BBB- /CARE A3</b> <b>[Triple B Minus/ A Three]</b> <b>(Under Credit watch with developing implications)</b>	Continues on credit watch with developing implications
<b>Total</b>	<b>103.00</b> <b>(Rupees One hundred and Three crore only)</b>		

2. Refer Annexure 1 for details of rated facilities.
3. CARE will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

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<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

4. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure-2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by **April 03, 2019**, we will proceed on the basis that you have no any comments to offer.
5. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
6. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
7. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
8. Users of this rating may kindly refer our website [www.careratings.com](http://www.careratings.com) for latest update on the outstanding rating.

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9. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

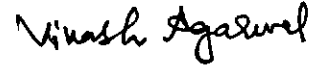
If you need any clarification, you are welcome to approach us in this regard.

Thanking you,



**Krishna Pandey**  
Dy. Manager  
[krishna.p@careratings.com](mailto:krishna.p@careratings.com)  
Encl.: As above

Yours faithfully,



**Vikash Agarwal**  
Sr. Manager  
[vikash.agarwal@careratings.com](mailto:vikash.agarwal@careratings.com)

**Disclaimer**

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating/outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure - 1**  
**Details of Rated Facilities**

**1. Long-term facilities**

**1.A. Term loan**

(Rs. Crore)

Sr. No.	Lender	Rated Amount	Remarks
1.	Saraswat Bank	5.43	November 2022
	<b>Total</b>	<b>5.43</b>	

**1.B. Fund-based limits**

(Rs. Crore)

Sr. No.	Lender	Type of Facility	Rated Amount
1	Saraswat Bank	Cash credit	80.00*
2	Saraswat Bank	Stand by line	2.00
	<b>TOTAL</b>		<b>82.00</b>

\*Includes Rs.10 crore of interchangeable limits between Letter of credit and Cash credit.

**2. Fund based/Non-Fund based limits**

(Rs. Crore)

Sr. No.	Lender	Type of Facility	Rated Amount
1	Saraswat Bank	Letter of credit	14.57
2	Saraswat Bank	Bank guarantee	1.00
	<b>TOTAL</b>		<b>15.57</b>

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**Annexure – 2  
Press Release**

**Ratings**

<b>Facilities</b>	<b>Amount (Rs. crore)</b>	<b>Rating<sup>2</sup></b>	<b>Rating Action</b>
Long-term Bank Facilities (Cash Credit)	82.00 (enhanced from 60.00)	<b>CARE BBB- [Triple B Minus] (Under Credit watch with developing implications)</b>	Continues on credit watch with developing implications
Long-term Bank Facilities (Term Loan)	5.43 (reduced from 7.00)	<b>CARE BBB- [Triple B Minus] (Under Credit watch with developing implications)</b>	Continues on credit watch with developing implications
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<b>Total</b>	<b>103.00</b> (Rupees One hundred and Three crore only)		

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

*The ratings assigned to the bank facilities of Gufic Biosciences Limited (GBL) continues to be under 'credit watch with developing implications' on account of proposed amalgamation of Gufic Lifesciences Pvt. Ltd. with GBL and the possible impact of the same on the credit profile of GBL, as the company is in the process of filing revised scheme of amalgamation and sought approval with the regulators and other stakeholders. CARE will take a final view on the rating, once the exact implications of the above development on the business and overall credit profile of the GBL are clear.*

*The ratings continue to derive strength from growth in revenues, improvement in the profit margins, capital structure, and debt coverage indicators during FY18 (refers to the period from April 01 to March 31). The ratings continues to factor in vast experience of the promoters, diversified product portfolio of the company with established expertise in the injectable segment along with focus on lyophilisation products catering to reputed client base and accredited manufacturing facility.*

*The above rating strengths are, however, tempered by moderate scale of operations, exposure to group companies, elongation in operating cycle leading to higher working capital utilisation and thin liquidity position, exposure of the company's revenues to the*

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

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*regulatory risk in the industry and susceptibility of the profit margins to volatility in the raw material prices.*

*Going forward, the company's ability to improve its capital structure and liquidity position through effective management of its working capital cycle, while growing its scale of operations and profit margins, will remain the key rating sensitivities.*

#### **Detailed description of the key rating drivers**

##### **Key Rating Strengths**

##### ***Vast experience of the promoters in the pharmaceutical industry***

The promoters of the company have been in the pharmaceutical industry since 1960, through incorporation of Gufic Pharma Private Limited (GPPL). Gufic group is in the business of manufacturing and marketing injectable products since late 1970s. The promoters are supported by qualified professionals heading various verticals with adequate and relevant experience in their respective fields.

##### ***Diversified product portfolio***

The product portfolio of the company is well diversified, marked by its presence in key therapeutic segments (under bulk drugs/API division) such as anti-fungal, anti-bacterial, anti-infective, anti-inflammatory, and anesthetic. GBL's lyophilizatoin product includes antibiotic, antifungal, cardiac, infertility, antiviral, and proton pump inhibitor segment. The product portfolio can be divided mainly under two segments which includes pharma and bulk drugs. Pharma segment includes manufacturing and trading of Tablets, capsules, ointment, syrup/suspension powder, injection and lotion etc. During FY18, the company derived around 92.94% (P.Y:97.37%) of the total revenues from pharma segment. During FY18, the company has added around 20 more products to its portfolio.

##### ***Reputed and broad clientele base***

GBL has a well-established and reputed clientele base comprising of leading global pharma companies such as, Lupin Ltd, Glenmark Pharmaceuticals etc. GBL has maintained long term relations with these clients and receives repeat orders. In FY18, the top 10 customers contributed almost 15% of total sales of GBL. thereby indicating a reputed and broad clientele base.

##### ***Accredited manufacturing facility***

GBL, part of Gufic group, manufactures APIs and formulations at its Navsari facility. The facility is a WHO GMP certified injectable manufacturing unit, catering to general and hormonal products for the Indian domestic and semi regulated markets internationally.

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GBL currently has 7 Lyophilizers catering to total capacity of 14.4 million vials per annum and caters to various therapeutic segments. Besides, the total installed capacity for Gufic group post amalgamation will increase to 32.40 million vials per annum (excluding expandable capacity possibility of GLPL).

***Growth in revenues coupled with improvement in the profit margins***

The company expanded its product portfolio by introducing around 20 new products in the market. Introduction of new products coupled with increase in sale of existing products helped the company to post healthy growth in revenues during FY18, rising by 22.39% on y-o-y basis from Rs.240.10 crore in FY17 to Rs.293.86 crore during FY18. Moreover, growth in revenues resulted in better economies of scale translating into improvement in the profit margin during FY18. The company's PBILDT margin improved from 9.86% in FY17 to 13.35% in FY18; the PAT margin also improved to 5.28% in FY18 from 3.65% in FY17.

***Improvement in the capital structure and debt coverage indicators; albeit continues to be at moderate levels***

Increase in tangible networth due to plough back of profits generated during the year led improvement in the capital structure as seen from overall gearing to 1.62 times as on March 31, 2018 from 1.90 times as on March 31, 2017. Furthermore, growth in profits and hence the gross cash accruals led to improvement in the debt coverage indicators as seen from total debt to GCA and PBILDT interest coverage ratios which improved to 4.35 times and 4.95 times respectively as on March 31, 2018 as against 6.52 times and 4.14 times as on March 31, 2017 respectively.

**Key Rating Weaknesses**

***Moderate scale of operations***

The company's scale of operations improved on y-o-y basis by around 22.82% growth in the total operating income from Rs.246.92 crore in FY17 to Rs.303.27 crore in FY18. During 9MFY19, the company has reported growth in revenues by around 14% on a y-o-y basis. Nevertheless, the scale of operations continues to be moderate. Moreover, the company's tangible networth continues to be small Rs.53.41 crore, thus limiting the company's ability to absorb any unforeseen losses.

***Elongation in average working capital cycle***

Lower than expected off-take in the month of March resulted in increase in average inventory holding period from 96 days as on March 31, 2018 to 114 days as on March

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31, 2018. This also led to increase in average operating cycle from 94 days as on March 31, 2017 to 112 days as on March 31, 2018.

#### ***Exposure to group companies***

The company utilizes part of manufacturing facilities of its group companies for meeting its products demand, and hence extends advances/deposits for supporting their operations. The exposure to group companies reduced from Rs.20.79 crore as on March 31 2017 (i.e 37.32% of the tangible worth) to Rs.6.15 crore (i.e 11.52% of the tangible networth) as on March 31, 2018. Going forward, increase in support or exposure by way of advances/deposits towards its group companies without commensurate strengthening in the networth of the company is key rating monitorable.

#### ***Highly regulated industry***

The pharmaceutical industry is among the most regulated across the world and needs regular approvals from relevant drug authorities across countries. The time for obtaining approvals is significant and regulations governing the industry change from region to region. Hence, the company is required to comply with various laws, rules and regulations and operate under strict regulatory environment in India and abroad considering the nature of business. The same includes sterner drug quality norms in various global market places, and price controls in India through introduction of New Drug Price Control Order in May 2013. Thus, regulatory risks have emerged as a significant risk factor affecting the financial and credit risk profile of pharmaceutical companies and can have a serious consequence on the operations, in case, of any infringement of any law or lapses in the standard operating procedures prescribed by the regulators.

#### ***Susceptibility of margins to any adverse movement in raw material prices***

GPL procures majority of raw materials from domestic market and partly through imports. Although, the raw material prices remained stable in the past few years, however, the profitability margins are susceptible to any adverse fluctuation in raw material prices. However, well-established relationship with suppliers mitigates risk to certain extent.

#### ***Thin liquidity position***

Increase in working capital requirements during the year led to deterioration in the liquidity profile of the company. The company's fund based limits remained almost fully utilized for the last twelve months ending February 2019; thus leaving very small buffer to raise funds in case of any exigency.

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**Analytical approach:** Standalone.

**Applicable Criteria**

CARE's Policy on Default Recognition

Financial ratios – Non-Financial Sector

Rating Methodology: Factoring Linkages in Ratings

Rating Methodology: Pharmaceutical Sector

Criteria for placing rating on credit watch

**About the Company**

Incorporated in 1984, Gufic Biosciences Limited (GBL) is a pharmaceutical company promoted by Mr. Jayesh P Choksi and Mr. Pranav Choksi, who hold 65.75% equity stake directly or through group companies as on December 31, 2018. The company is primarily engaged in manufacturing formulations and active pharmaceutical ingredients (APIs) for various leading pharmaceutical companies in India. The company has established itself in the pharma, herbal and biotechnology business in India. GBL's key focus is in contract manufacturing and the intellectual property rights of the products manufactured under contract manufacturing remains with GBL for majority of the products.

	2018	2017
Total operating income	261.82	306.43
PBILD	24.36	40.47
PAT	9.02	16.02
Overall gearing (times)	1.90	1.62
Interest coverage (times)	4.14	4.95

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable.

**Any other information:** Not Applicable.

**Rating History for last three years:** Please refer Annexure-2

*Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.*

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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**



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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Disclaimer**

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**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	82.00	CARE BBB- (Under Credit watch with Developing Implications)
Fund-based - LT-Term Loan	-	-	November 2022	5.43	CARE BBB- (Under Credit watch with Developing Implications)
Fund-based/Non-fund-based-LT/ST	-	-	-	15.57	CARE BBB- / CARE A3 (Under Credit watch with Developing Implications)

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	82.00	CARE BBB- (Under Credit watch with Developing Implications)	1)CARE BBB- (Under Credit watch with Developing Implications) (29-Jun-18) 2)CARE BBB- (Under Credit watch with Developing Implications) (06-Apr-18)	1)CARE BBB- (Under Credit watch with Developing Implications) (20-Nov-17) 2)CARE BBB-; Stable (19-Apr-17)	1)CARE BBB- (16-Jun-16)	-
2.	Fund-based - LT-Term Loan	LT	5.43	CARE BBB- (Under Credit watch with Developing Implications)	1)CARE BBB- (Under Credit watch with Developing Implications) (29-Jun-18)	-	-	-
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	15.57	CARE BBB- / CARE A3 (Under Credit watch with Developing Implications)	1)CARE BBB- / CARE A3 (Under Credit watch with Developing Implications) (29-Jun-18)	-	-	-