

Corp. Office . 2nd Floor, 'Dorr Oliver' House, B. D. Sawant Marg, Chakala, Andheri (East), Mumbai - 400 099
Tel. : (91-22) 6726 1000 Fax : (91-22) 6726 1068 E-mail : gufic@guficbio.com
CIN L65990MH1984PLCO33519

July 19, 2016

To,
Listing Department,
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051
Security Code : GUFIC

To,
Listing Department,
Bombay Stock Exchange Limited,
Phiroze Jeejabhoy Towers, Dalal Street,
Mumbai – 400 001
Security Code : 509079

Dear Sirs,

Sub : Submission of Credit Rating by CARE Ratings

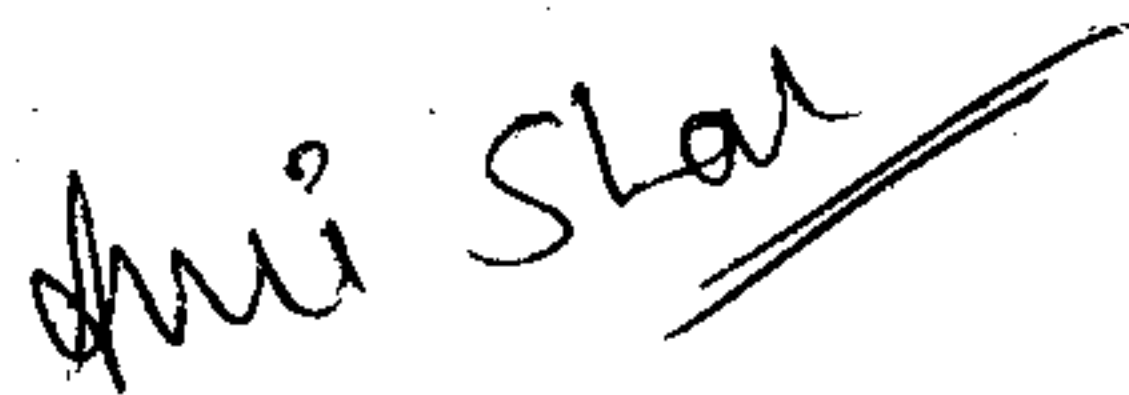
This is to inform you that the CARE Rating, a credit rating agency have given their rating for the bank facilities availed by the Company for Rs. 25.00 crores.

Enclosed is the rating provided by them in detail.

You are requested to take the same on record.

Yours faithfully,

For Gufic Biosciences Limited



Ami Shah
Company Secretary & Compliance Officer



CARE/HO/RR/2016-17/1232

Mr. Pranav Choksi,
Executive Director,
Gufic BioScience Ltd
Dorr Oliver House, 2nd Floor, B.D.Sawant Marg,
Chakala , Andheri (East) Mumbai – 400 099

June 11, 2016

Dear Sir,

Credit rating of Bank Facilities for Rs.25 crore

Please refer to our letter dated June 7, 2016 on the above subject.

1. The rationale for the rating is attached as an **Annexure - I**. Kindly note that the rationale would be published in the forthcoming issue of our monthly journal, 'CAREVIEW'.
2. A write-up (brief rationale) on the above rating is proposed to be issued to the press shortly. A draft of this is enclosed for your perusal as **Annexure - II**.
4. We request you to peruse the annexed documents 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 June 12, 2016, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,



Pulkit Agarwal
Assistant General Manager

Encl: As above

Annexure - I

Rating Rationale

Gufic Biosciences Limited

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Fund Based- Long Term – Cash Credit	25.00	CARE BBB- (Triple B Minus)	Assigned
Total facilities	25.00 (Rupees Twenty Five crore only)		

Rating Rationale

The rating assigned to the bank facilities of Gufic Bioscience Ltd derives strength from the extensive experience of the promoters in the pharmaceutical sector, presence across business segments, established expertise in the injectable segment with focus on lyophilisation products catering to reputed client base, accredited manufacturing facility. The rating further takes into account expected increase in revenues on account of increased capacity of Gufic group with commercialization of lyophilised facility in current fiscal (FY17). The rating is further strengthened by moderate capital structure and debt coverage indicators and short operating cycle .

However, the ratings continues to be constrained by the modest scale of operations, low profitability margins and susceptibility of margins to volatile raw material prices , funding support to loss-making operations of group companies and susceptibility to various government regulations.

The ability of the company to achieve the projected sales growth and improve margins while maintaining its capital structure remain its key rating sensitivities.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Background

Incorporated in 2000, Gufic Biosciences Limited (GBL) is a Pharmaceutical company closely held by Choksi family, who hold 70% stake directly or through group companies. The promoters of the company have been in the Pharmaceutical industry since 1960, ever since they incorporated Gufic Pharma Private Limited (GPPL). Gufic has been in the business of manufacturing and marketing injectable products since late 1970s. The group had earlier exited its API and formulations manufacturing division through a sell-off of its six major brands such as Mox (Amoxycillin) Injection, Zole (Miconazole Nitrate) etc. to Ranbaxy in 1997. The promoters then re-entered pharmaceutical formulations segment through incorporation of Gufic Biosciences Limited.

Gufic Biosciences Limited has established itself in the pharma, herbal and biotechnology business. Key focus is in contract manufacturing for various leading pharmaceutical companies in India including Abbott Laboratories, However, the intellectual property rights of the products manufactured under contract manufacturing remains with GBL for majority of the products. Gufic had also diversified into hybrid vegetable seeds and tissue culture business, which were eventually ceased, as they were not profitable. Since then, they have focused on R&D for Plant & Human Biotechnology and Ayurvedic & Herbal based formulations. Gufic has filed a couple of patents in the last two years and its multi-disciplinary and innovative R&D programmes are strongly focused on creating Intellectual Properties. Through its intellectual property, the company is now focusing on manufacturing and marketing its products under its own 'Brand' apart from Contract Research and Manufacturing Services (CRAM) business.

Manufacturing Facility

Gufic manufactures its products at three separate facilities at Navsari, Baroda and Belgaum. The Navsari facility manufactures APIs and formulations, which is a WHO GMP certified injectable manufacturing unit, catering to general and hormonal products for the Indian domestic and semi regulated markets internationally. The Belgaum facility is owned and managed by Gufic

Chem Pvt. Ltd. (GCPL) and manufactures herbal products. Consumer products are manufactured at Baroda Facility, which is now hived off to GPL.

GBL currently has 7 Lyophilizers catering to total capacity of 14.4 million vials per annum and caters to various therapeutic segments. The products are manufactured by using in-house know how and no outside technology is being used for manufacturing activities. In order to exploit opportunities in the regulated markets, the promoters of Gufic have set up a new regulatory complaint facility in 2015 under the name 'Gufic Life Sciences Private Limited' (GLSPL), which is a 100% subsidiary of Gufic Private Limited (GPL). The new facility at Navsari has a manufacturing capacity of 18 million vials per annum with an expandable possibility to 25 million vials per annum in Phase 2. The total capacity of the Gufic group is expected to reach to 40 million vial including the capacity of Gufic Bioscience Limited (current capacity of 14.4 million vials per annum). This facility will be used to manufacture critical care products used for treating cardiac disorders, infertility, supplemental onco therapy, antibacterial, empirical therapy for emergency case.

Credit Risk Assessment

Promoter's long standing experience in the pharmaceutical manufacturing industry

GBL, a pharmaceutical company is closely held by Choksi family, who hold 70% stake directly or through group companies. The promoters of the company have been in the Pharmaceutical industry since 1960, when they incorporated Gufic Pharma Private Limited (GPPL). Gufic has been 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.

Presence across business segments, established expertise in the injectable segment with focus on lyophilisation products

The company is engaged in contract manufacturing of formulations for pharmaceuticals companies based in India. However the IP for majority of the products remains with the company. The company has developed expertise in enhancing its product portfolio by addition

of new products thereby resulting in an increase in contract manufacturing business. The company has developed and manufactured about 60 products for major pharma companies. The company also manufactures own brands of products and sells it through its own marketing channels.

The product portfolio of the company is well diversified marked by its presence in key therapeutic segments such as Anti-Fungal, Anti-Bacterial, Anti-infective, Anti-inflammatory etc. including niche segments viz. critical care products used for treating cardiac disorders, infertility, supplemental onco therapy, antibacterial, empirical therapy for emergency case. The company's product segments include Formulations, Bulk Drugs and Consumer. It manufactures products in the areas of pharma, herbal, and consumer products. Its major pharma products through its own marketing channels are Ridol Tablets, Vipro-Fe Syrup, Zad-G and Eben Tablets and Suspension while its herbal products include Sallaki tablets, Sallaki ointment, Imunocin tablets and syrup, Eugynin-L tablets, Aswal Plus tablets, and Kofend syrup. Its consumer products are Stretch Nil lotion, Roll-On cold rub oil, Care ointment and cream, shapers and actislim sanitary napkins. The company currently has a basket of sixty brands under its IP.

Nonetheless, given the continued headwinds faced by consumer products division, the company has consciously decided to reduce its sales in this division and will only continue with its existing contract with its client to provide sanitary napkins.

Reputed client base under CRAMs

GBL has a reputed clientele comprising of leading global pharma companies such as Sun Pharmaceuticals, Alkem Laboratories, Lupin Ltd, Glenmark Pharmaceuticals etc. for contract manufacturing. GBL has maintained long term relations with these clients and receives repeat orders. In FY15, the top 10 customers contributed almost 50.7% of total sales of GBL, as compared to 33% in FY14.

Accredited manufacturing facility

Gufic manufactures its products at three separate facilities at Navsari, Baroda and Belgaum. The Navsari facility manufactures APIs and formulations, which is a WHO GMP certified injectable

manufacturing unit, catering to general and hormonal products for the Indian domestic and semi regulated markets internationally.

GBL currently has 7 Lyophilizers catering to total capacity of 14.4 million vials per annum and caters to various therapeutic segments.

Besides, in order to exploit opportunities in the regulated markets, the promoters of Gufic have set up a new regulatory compliant facility under the name 'Gufic Life Sciences Private Limited' (GLSPL), which is a 100% subsidiary of Gufic Group. The new facility at Navsari has a manufacturing capacity of 1.5 million vials per month with an expandable possibility to 2.1 million vials per month in Phase 2.

The new facility has been inspected and audited for USFDA EU, UK MHRA approval and the certification is yet to come.

Comfortable capital structure and debt coverage indicators

GBL's borrowings comprise of rupee term loans and working capital borrowings. The overall gearing ratio remained comfortable at 0.99x as on March 31, 2015 and 0.93 as on March 31, 2014 owing to lower reliance on debt. Total Debt to GCA stood at 3.98x in FY15, while interest coverage ratio continues to remain comfortable at 3.27x during FY15.

Moderate working capital cycle

The average working capital cycle of GBL has remained moderate in the range of 60-70 days. GBL has an inventory holding period of 80-90 days, while its average collection period is in the range of 70-75 days. The drag in collection period is mainly due to collections from Herbal, consumer and bulk drugs division, while the collections from critical care segment comes in 45 days. Nonetheless, the average creditor period has been longer in the range of 90-120 days thus mitigating the impact of longer inventory and collection period.

Modest scale of operations

GBL is a small sized pharmaceuticals player. It had a turnover of Rs 151.86 crore and tangible net worth of Rs 29.95 crore as on March 31, 2015. The relatively small size makes it susceptible to any economic volatility or

adverse business conditions to absorb losses or meet financial exigencies.

Lower profitability margins

As a result of its increasing focus on building and setting up its own marketing network and brand, GBL's PBILDT margins are lower than its peers in the pharma-manufacturing industry. It has declined from 11.26% in FY13 to 9.59% in FY15. Earlier, the company was outsourcing its marketing contract to Placer Marketing Company, which is now merged into Gufic Private Limited and the staff has been absorbed in Gufic bio sciences Ltd for its marketing team in FY14. Further in FY15 they added experienced professionals including senior management for increasing operational setup for selling its own products. As a result, the employee costs have risen from Rs.5.45 crore in FY13 to Rs.11.94 crore in FY14 and Rs. 19.33 crore in FY15.

However, through its intellectual property, the company is now focusing on manufacturing and marketing its products under its own 'Brand' and is consciously reducing its exposure to Contract Research and Manufacturing Services (CRAM) business, which will likely improve the margins going forward.

At PAT level, the margins of the company stood at 2.74% in FY15 and 4.26% in FY14. The fall in PAT margins was primarily due to higher depreciation costs accounted due to change in companies act.

Funding support to loss-making operations of Group companies

The Company has given corporate guarantee of Rs.4.50 crore for loans taken by the promoter held group company viz. Gufic Lifesciences Private Ltd (GLSPL). The adjusted overall gearing including the corporate guarantee of Rs.4.5 crore to debt is 1.15x as on 31, March 2015. GLSPL recorded revenue of Rs.0.41 crore and a net loss of Rs. 0.21 crore in FY15. Thus, funding support to loss-making operations of Group companies, which manufacture on behalf of Gufic would remain a cause of concern.

The company has given a loans and advances of Rs.10.97 crore in FY15 and Rs.8.5crore in FY14 to GLSPL, which is being adjusted against their purchases of raw materials and finished goods from GLSPL. The performance of GLSPL has been improving, wherein its generating revenue of

around 1 crore per month. As on March 25, 2016, the current outstanding loans and advances stand at Rs.2.74 crore and this amount is expected to come down to zero by June 2016. Going forward, the company would have GLSPL as its regular supplier.

Susceptible to various government regulations

The pharma industry is among the most regulated across the world. It needs regular approvals from relevant drug authorities across countries. The time for obtaining approvals takes significant time and regulations governing the industry change from region to region.

Susceptibility of margins to volatile raw material prices

The raw material remained the major cost driver which had shown stable trend . SHPL procures majority of raw material from domestic market. Aquatic Remedies Pvt. Ltd, Glenmarks Generics Ltd, Gnosis Pharmaceuticals Pvt.Ltd, Abil Chempharma Pvt. Ltd., CKD Bio corporation remained the top five suppliers of GBL during FY15 with contribution of 63% (42% during FY14) to the total purchases during FY15. The prices of the same are volatile in nature and prices have been fluctuating in the past & therefore cost base remains exposed to any adverse price fluctuations in the prices of the raw materials. Accordingly, the profitability margin of the company is susceptible to fluctuation in raw material prices. However, well-established relationship with suppliers mitigates risk to certain extent.

Financial Performance

(Rs. Cr)

For the period ended / as at March 31,	2013 (12m, Prov)	2014 (12m, Prov)	2015 (12m, Prov)
<u>Working Results</u>			
Total Operating income	100.52	123.56	151.86
PBILDT	11.26	12.58	14.58
Interest	3.81	4.29	4.46
Depreciation	2.18	2.47	3.85
PBT	5.36	5.84	6.46
PAT (after deferred tax)	3.33	4.26	4.16
Gross Cash Accruals	6.04	6.80	7.52
<u>Financial Position</u>			
Tangible' Networkth	27.06	30.88	29.95
Total Debt	30.08	28.69	29.94
<u>Key Ratios</u>			
<i>Profitability</i>			
PBILDT/Total Op. income (%)	11.20	10.18	9.60
PAT (after deferred tax)/ Total income (%)	3.31	3.45	2.74
ROCE (%)	17.47	16.60	17.71
RONW (%)	13.64	14.72	13.67
<i>Solvency</i>			
Long Term Debt Equity ratio (times)	0.60	0.45	0.40
Overall gearing ratio(times)	1.11	0.93	1.00
**Adjusted Overall Gearing (Including corporate guarantee and Acceptances / Creditors on LC)	1.11	0.93	1.15
Interest coverage(times)	3.05	3.21	3.27
Total debt/Gross cash accruals(years)	4.98	4.22	3.98
<i>Liquidity</i>			
Current ratio(times)	1.13	1.13	1.07
Quick ratio(times)	0.68	0.70	0.63
<i>Turnover</i>			
Average collection period (days)	76	73	75
Average inventory (days)	95	85	88
Average creditors (days)	85	91	113
Operating cycle (days)	85	67	49

Annexure 1
Details of Rated Facilities

1. Long-term facilities

1.A. Fund Based limits sanctioned limits

Sr. No.	Lender	Type of Facility	Rated Amount (Rs. Crore)
1	Saraswat Bank	Cash credit	25.00
	TOTAL		25.00

Total Bank Facilities to be rated is Rs.25 crore

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 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 assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating 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 - II

Brief Rationale

CARE assigns 'CARE BBB-' rating to the Bank Facilities of Gufic Biosciences Limited

Ratings

Facilities	Amount (Rs. crore)	Rating²	Remarks
Fund Based- Long Term – Cash Credit	25.00	CARE BBB- (Triple B Minus)	Assigned
Total facilities	25.00 (Rupees Twenty Five crore only)		

Rating Rationale

The rating assigned to the bank facilities of Gufic Bioscience Ltd derives strength from the extensive experience of the promoters in the pharmaceutical sector, presence across business segments, established expertise in the injectable segment with focus on lyophilisation products catering to reputed client base, accredited manufacturing facility. The rating further takes into account expected increase in revenue on account of increased capacity of Gufic group with commercialization of lyophilised facility in current fiscal (FY17). The rating is further strengthened by moderate capital structure and debt coverage indicators and short operating cycle .

However, the ratings continues to be constrained by the modest scale of operations, low profitability margins and susceptibility of margins to volatile raw material prices , funding support to loss-making operations of group companies and susceptibility to various government regulations.

The ability of the company to achieve the projected sales growth and improve margins while maintaining its capital structure remain its key rating sensitivities.

Background

Incorporated in 2000, Gufic Biosciences Limited (GBL) is a Pharmaceutical company closely held by Choksi family, who hold 70% stake directly or through group companies. The promoters of the company have been in the Pharmaceutical industry since 1960, ever since they

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

incorporated Gufic Pharma Private Limited (GPPL). Gufic has been in the business of manufacturing and marketing injectable products since late 1970s. The group had earlier exited its API and formulations manufacturing division through a sell-off of its six major brands such as Mox (Amoxycillin) Injection, Zole (Miconazole Nitrate) etc. to Ranbaxy in 1997. The promoters then re-entered pharmaceutical formulations segment through incorporation of Gufic Biosciences Limited.

Gufic Biosciences Limited has established itself in the pharma, herbal and biotechnology business. Key focus is in contract manufacturing for various leading pharmaceutical companies in India including Abbott Laboratories, However, the intellectual property rights of the products manufactured under contract manufacturing remains with GBL for majority of the products. Gufic had also diversified into hybrid vegetable seeds and tissue culture business, which were eventually ceased, as they were not profitable. Since then, they have focused on R&D for Plant & Human Biotechnology and Ayurvedic & Herbal based formulations. Gufic has filed a couple of patents in the last two years and its multi-disciplinary and innovative R&D programmes are strongly focused on creating Intellectual Properties. Through its intellectual property, the company is now focusing on manufacturing and marketing its products under its own 'Brand' apart from Contract Research and Manufacturing Services (CRAM) business.

Manufacturing Facility

Gufic manufactures its products at three separate facilities at Navsari, Baroda and Belgaum. The Navsari facility manufactures APIs and formulations, which is a WHO GMP certified injectable manufacturing unit, catering to general and hormonal products for the Indian domestic and semi regulated markets internationally. The Belgaum facility is owned and managed by Gufic Chem Pvt. Ltd. (GCPL) and manufactures herbal products. Consumer products are manufactured at Baroda Facility, which is now hived off to GPL.

Gufic currently has 7 Lyophilizers catering to total capacity of 14.4 million vials per annum and caters to various therapeutic segments. The products are manufactured by using in-house know how and no outside technology is being used for manufacturing activities. In order to exploit opportunities in the regulated markets, the promoters of Gufic have set up a new

regulatory complaint facility in 2015 under the name 'Gufic Life Sciences Private Limited' (GLSPL), which is a 100% subsidiary of Gufic Private Limited (GPL). The new facility at Navsari has a manufacturing capacity of 18 million vials per annum with an expandable possibility to 25 million vials per annum in Phase 2. The total capacity would reach to 40 million vial including the capacity of Gufic Bioscience Limited. This facility will be used to manufacture critical care products used for treating cardiac disorders, infertility, supplemental onco therapy, antibacterial, empirical therapy for emergency case.

During FY15 (refers to the period April 1 to March 31) , the company reported total income of Rs. 151.86 crore (Rs. 123.56 crore in FY14) and a PAT of Rs. 4.16 crore (Rs. 4.26 crore in FY14). For nine months ended FY16 (refers to the period April 1 to December 31), the company reported total income of Rs. 145.21 crore and a PAT of Rs. 5.11 crore.

Analyst Contact

Name: Mr Ravi Kumar Dasari

Tel: (022) 6754-3421

Cell: +91-9004607603

Email: ravi.kumar@careratings.com

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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 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 assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating 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.