

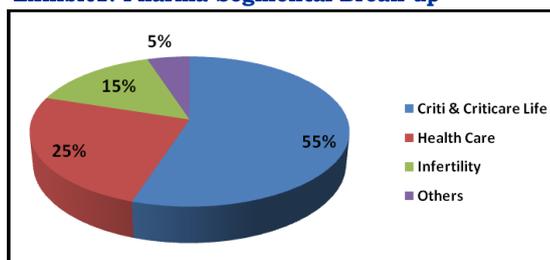
Overview: Incorporated in 2000, Gufic Biosciences Limited (Gufic) is a Pharma company closely held by Choksi family. It has established itself in the Pharma, herbal and biotechnology business with the key focus being on contract manufacturing for various leading Pharma companies in India. However, the intellectual property rights of the products manufactured under contract manufacturing remains with Gufic for majority of the products.

SNAPSHOT	
Market Cap (Rs Mn)	8,895
52 week H / L (Rs)	164 / 74
BSE Code	509079
NSE Code	GUFICBIO

Key takeaways from the AGM:

- Gufic operates majorly in two segments viz., Pharma contributing 93% and Bulk drugs contributing 6%.
- The Pharma segment is further sub-divided into five divisions namely, Healthcare, Spark, Criticare, Criticare Life and Ferticare.
- The growth of the company was mainly attributed to the strong performance of the Criticare & Criticare Life and Infertility division.
- An amortization expense has been charged with regard to the poor performance of SPARK, the sub division of the Pharma segment.
- Company's domestic sales contributed 94% and exports contributed 6% to the overall turnover.
- During the year under review, Gufic launched around 20 new products and constantly improved the processing of its existing products. Management also expects to launch more than 28 new products during the current fiscal.
- Gufic received two process patents on its invention on formulation, namely Micafungin and Rifabutin.
- Company plans to expand its business by entering in the field of Cosmetics, Immune-Oncology, Diabetes and Neuropsychiatry in the near future.
- The Scheme of Amalgamation of Gufic Stridden Bio-Pharma Private Limited with Gufic Biosciences Limited and their respective shareholders and creditors was approved on May 28, 2018.
- Board of Directors of the Company also approved the Scheme of Amalgamation of Gufic Lifesciences Private Limited with the company and their respective shareholders and creditors.
- **Regulatory Impact:** On the regulatory front, the company mentioned that only 14-15% of products of Gufic fall under NPPA (National Pharmaceutical Pricing Authority), wherein the NPPA doesn't allow to increase prices above 10%. Hence, the impact would be negligible. With regard to the fixed-dose combination (FDC) ban, the company has indicated impact to the tune of Rs55-60 lacs affecting only two products that come under this bracket.
- **Entry into the regulated markets:** So far, the company was not present aggressively into the regulated markets. However, there has been a change in the business approach; with the amalgamation of Gufic Lifesciences Private Limited which would further expand the wings to export to newer geographies going ahead. Currently the company has held grip in the German market.
- **Entry into the US markets:** Dr. Balram Singh, who is a pioneer in the field of Biotechnology in USA has been recently added to the Board of the Company. With his rich experience, Dr. Singh is expected to ramp up the business in the Botulinum space.
- **Growth across different business segments:** Gufic has always followed the strategy to go ahead with the division performing well and explore more opportunities in it. In FY18, the key segments were Infertility and Critical Care divisions that performed well. These segments are expected to do well in the current year as well. The company intends to add new divisions during the year and extend the performing division with specialty additions like Criticare Life (an extension of Criticare segment).
- The company has indicated an addition of a new division in recent future. For the Oncology segment (which has been the focus for sometime now) clinical trials are currently in progress, but unless something substantial is derived, it would not be a gung-ho for the management.
- **Growth in sub-divisions of Pharma segment:**

Exhibit 1: Pharma Segmental Break-up



Source: Gufic Biosciences Ltd –AGM Management Update

- **Shareholding Pattern:** There was a drop in the Promoter Shareholding from 69.98% to 65.73%, due to reclassification of two promoters to non-promoter category.

Financials:

For the full year, the net sales clocked growth of 22.6%. The Ebitda margins stood at 13%. The net profits clocked a growth of 77.6%. For 1QFY19, the net sales clocked a growth of 30.2% y-o-y to Rs785mn as compared to Rs603mn in the corresponding quarter last year with a decent growth of 11% at the net profit levels; majorly propelled by the growth of the Pharma division to the tune of 40%. Overall, the company is well on track with the growth targeted as per our projections. The company continues to be a net importer. With regard to increase in finance cost, it was mainly attributable to increase in the cash credit (CC) limits. However, there is a reduction in the borrowing cost. There is no major capex planned for the year except for the nominal Rs10-15cr which is needed for vial additions. Also, the uptrend in the Ebitda margins is likely to sustain. For the long-standing fraud case of the employee, Gufic has indicated that it would not succumb to any negotiations that are being offered and would recover the entire amount.

Quarterly Performance				
Parameters (Rs mn)	Sept-17	Dec-17	Mar-18	June-18
Sales (Net)	748	884	774	785
EBITDA	98	119	91	92
Other Income	8	6	14	2
Interest	27	17	27	19
Depreciation	10	11	12	9
Exceptional Items	5	0	0	0
Tax	18	39	35	26
Net Profit / (Loss)	57	58	30	39
Equity	77	77	77	77
EPS (in Rs)	0.7	0.8	0.4	0.5

Annual Performance			
Parameters (Rs mn)	FY16	FY17	FY18
Sales (Net)	2,022	2,455	3,010
EBITDA	197	230	382
Other Income	6	14	29
Interest	54	63	88
Depreciation	38	37	43
Exceptional Items	0	0	-16
Tax	39	53	135
Net Profit / (Loss)	73	90	160
Equity	77	77	77
EPS (in Rs)	0.9	1.2	2.1

Outlook and Recommendations:

The company seems to be taking the right strides in terms of new product innovations, addition of divisions as per the lucrativeness of the markets which they cater to and the recent merger which is in process. The consolidation would add strength to the overall business offerings, manufacturing expertise and better customer range. With the Indian Pharmaceutical Industry on an uptrend with regard to initial phase of capex investments that has started; Gufic would be one of the beneficiaries of the same. We feel that the consolidation is the key to the larger picture that the company would now grab. Gufic would now be on the verge to start its second innings, although a gradual one. We continue to be bullish on the future prospects of the company and recommend a BUY on the stock with a target price of Rs175 over the next 12 months.

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