February 09, 2018 **REINITIATION REPORT** **VOL-4, NO-2**

Gufic Biosciences Limited

BUY

CMP: Rs. 122 **TARGET PRICE: Rs.175** **TIME : 12 months**

REINITIATION REPORT:

We had initiated coverage on Gufic Biosciences Limited on December 13, 2016 (Vol-2 No-17) at the price of Rs50 and target of Rs75. Post our coverage, the target was revised to Rs100 which was also breached and further revised to Rs140. Further strengthening the positive outlook for the company, we thereby re-initiate a fresh BUY call on the stock at CMP of Rs122 and a revised target of Rs175 over a 12 months horizon.

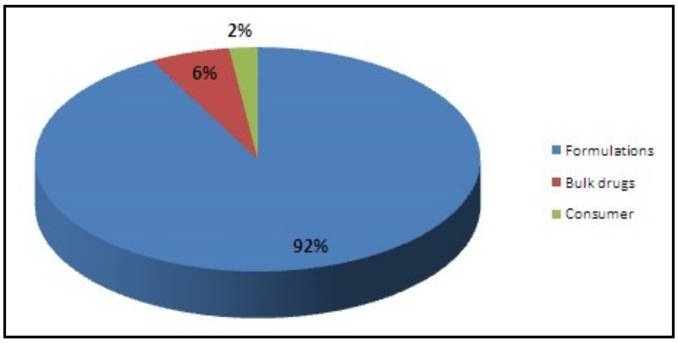
About the company:

Incorporated in 2000, Gufic Biosciences Limited (Gufic) is a Pharmaceutical company closely held by Choksi family, who hold 70% stake directly or through group companies. 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. The company has established itself in the Pharma, herbal and biotechnology business with the key focus being on contract manufacturing for various leading pharmaceutical companies in India. 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.

INVESTMENT RATIONALE:

A) Business Profile:

On the segmental front, the company has mainly Pharmaceuticals which constitute formulations and bulk drugs and the other being the consumer division. Formulations segment is expected to grow 20-25% every year for the next 2-3 years. The focus on the consumer division is only to the extent if there is presence of 8-10% margins.



Source: Annual Report

Being the first one to launch Doxycycline I.V for tropical fever, Gufic is one of the largest manufacturers of Lyophilized injections in India having a fully automated lyophilization plant. It has introduced new life saving molecules like Caspofungin, Tigecycline and Colistimethate at very economically prices. The lyophilized product portfolio includes Antibiotic, Antifungal, Cardiac, Infertility, Antiviral and proton-pump inhibitor segments.

The operations of the company mainly involve Contract Manufacturing and Bulk Drugs/API. In contract manufacturing, the company stands out as a valued and trusted partner owing to the superior quality assurance functions and stringent regulatory measures. The APIs manufactured caters to different therapeutic segments like Antifungals, Intermediates for antifungals, Anesthetics, Immuno suppressants, Angiotensin receptor blockers to mention a few.

SNAPSHOT	
52 week H / L	Mcap (INR mn)
144 / 54	9,421
Face value: 1	
BSE Code	NSE CODE
509079	GUFICBIO

Annual Performance

(Rs mn)	FY15	FY16	FY17	FY18E
Sales (Net)	1,516	2,022	2,493	2,901
EBITDA	143	197	270	368
EBITDA (%)	9.3	9.7	10.8	12.7
Other Income	6	7	9	11
Interest	45	54	62	87
Depreciation	39	38	37	41
PBT	65	112	180	251
PAT	42	73	114	177
Equity	77	77	77	77
EPS (INR)	0.5	0.9	1.5	2.3

Quarterly Performance

Parameters (Rs mn)	Dec-15	Mar-16	June-16	Sept-16
Sales (Net)	651	645	603	748
EBITDA	67	75	74	98
EBITDA (%)	10	12	12	13
Other Income	0.5	6.3	0.8	8.5
Interest	15	20	18	27
Depreciation	9	9	9	10
PAT	31	31	35	57
Equity (Rs mn)	77	77	77	77

Ratio Analysis

Parameters (Rs mn)	FY15	FY16	FY17	FY18E
EV/EBITDA (x)	67.7	49.6	36.7	27.3
EV/Net Sales (x)	6.4	4.8	4.0	3.5
M Cap/Sales (x)	6.2	4.7	3.8	3.2
M Cap/EBITDA (x)	66.0	47.9	34.9	25.6
Debt/Equity (x)	1.1	1.2	1.2	1.1
ROCE (%)	8.7	11.4	14.1	16.8
Price/Book Value (x)	34.8	27.7	21.0	15.3
P/E (x)	222.8	128.6	78.1	58.6

Share Holding Pattern as on 31st December 2017

Parameters	No of Shares	%
Promoters	5,08,40,372	65.7
Institutions	68,52,223	8.9
Public	1,96,57,405	25.4
TOTAL	7,73,50,000	100.00

Source: Annual Report

Note: All the data is calculated as per Market Price on 08th Feb 2018.

The major divisions that the company has are:

- Pharma: well established through the formulations and bulk drugs offerings
- Herbal: this would be the key area of growth complementing the Pharma space
- CritiCare: leading divisions in terms of revenues, focus of the management as well as prospects going forward. The products are growing at rapid rate after garnering acceptance.
- Infertility: immense potential in terms of the growth in the overall market and demand.

The company works on the strategy of putting up one new division per year and thereby cover new therapeutics in a balanced phase. Going forward, there are indications that the company would enter the Oncology space specific in terms of the target molecules and markets to be catered.

(B) Increased focus on Herbals:

After not being as profitable as expected in the hybrid vegetable seeds and tissue culture business, which eventually the company ceased; the focus has been on R&D for Plant & Human Biotechnology and Ayurvedic and Herbal based formulations. As of now the key therapeutic segment in herbals that the company is focusing on is the Pain management mainly Ortho based. 'Salliki' is the top brand in this segment which has not only gained strength in the domestic markets but also has international footprint with presence through different marketing arrangements. This segment is lucrative for the company in terms of margins as well on comparison to its offerings in the other segments. The company has a rich pipeline of products based on the geographies that it plans to target.

(C) Products and Patent flings:

The company has launched 34 new products in FY17. These were across the different divisions that it caters to. The company works with the target to launch one product per division per quarter. The company has a pipeline of products that it plans to add. It intends to add 8-10 injectables products per year.
On the patent front, in FY17, Gufic has received 2 patent approvals for Anidulafungin and Tigecycline. Further it has filed for 4 patents that are awaiting approval. The multi-disciplinary and innovative R&D programmes are strongly focused on creating Intellectual Properties. It targets to apply for 1-2 patents every year.

(D) Conviction through the management:

After the walkout with the selloff of brands to Ranbaxy, the company came back with the young and energetic management. The second generation with wider views and advanced technological skills took the strings into their hands. There was strong addition of modernized thoughts and outlook to the business of the company. The zeal to stand out in the Pharma space is well depicted, a positive from the company and boost to the overall growth of the company.

(E) Ramp up in the employee strength: now to bear fruit:

The company has ramped up aggressively on the employee addition majorly to the marketing team. These work across the different segments of business to increase the presence of the company's brands and offerings into the market. (Increased from 230 in 2015 to 1050 as of January 2018). With the addition of strong profiles, the company has started seeing sales ramping up across divisions. This has been the right step by the company that helps it strategize for growth and capture strong market share in the Pharma industry. One should see a slow compounding effect of the efforts of the new additions to generate sales and visibility to be reflected into the revenues going forward.

(F) Mergers at the right time:

Amalgamation of Gufic Stridden Bio-Pharma Pvt. Ltd with the company is under the approval process. Post-merger, the shareholders of the transferor company would be issued shares of the transferee company based on the valuation report from independent chartered accountant.

Gufic Lifesciences Pvt Limited:
To enter 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 15million vials per annum with an expandable possibility to 26million vials per annum in Phase-2. This facility is EUGMP certified and Dec2017 had the first consignment delivered.

The recent announcement of the board approval for the amalgamation of Gufic Lifesciences with the company is yet another positive, an impetus for further growth. The management intends to use the capacity of Gufic Life Science Pvt Ltd instead of giving contract to third party which will help safeguard the technology and save on cost as well. The total capacity would reach to ~40million vials 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.

This move further boost the conviction that the company clearly indicates it's intend to have all the companies in the group under one umbrella only after it qualifies on the benchmarks set.

Gufic Biosciences Limited

BUY

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Financials:

There has been a consistent growth seen in the revenues as well as the profits of the company. Going forward as well with the triggers being intact, the company is expected to clock good numbers on the top as well as bottom-line.

Source: Annual Report

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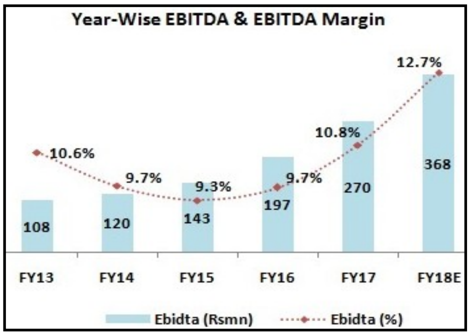
The margins were in pressure led by the increase in the employee cost which was added to the marketing force. However, as the revenues start trickling from different divisions, this cost is expected to stabilize and thereon margins are expected to improve.



Source: Annual Report

The company is soundly placed in terms of the debt on books. There have been repayments in an orderly manner done by the company in due course. Also in regard to capex, there is nothing major chalked out except for the regular maintenance capex needed.

With regards to the GST, there was a quarter impact seen but in the long run it is positive for the company as it has led to getting down the stocking pattern.

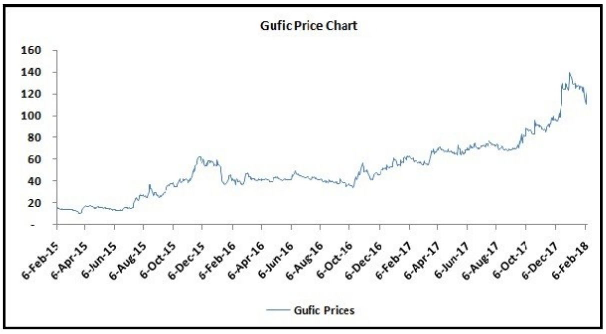
Risks and concerns:

Modest scale of operation, 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 are some of the concerns that need to be addressed.

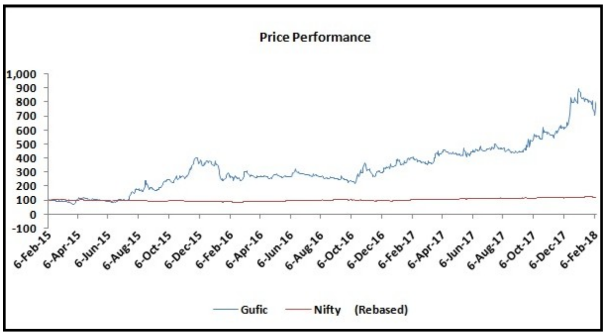
Outlook and valuations:

The company stands strong backed by the expertise of the promoters in the pharmaceutical sector. Presence across different markets with a range of product offerings is the niche. Going forward, with the mergers falling in place the company will better positioned in terms of capacities to cater to increasing demand. We reinitiate a BUY on the stock with a revised target price of Rs175 over 12 months.

Price Performance:



Source: Ace Equity



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