



PHARMACEUTICALS INDUSTRY

Gufic BioSciences Ltd (GBL)

AS ON 17/12/2022

MCap : ₹2053 Cr

Risk Profile : Medium

NSE:GUFICBIO

BSE: 509079

BUY PRICE: ₹212

Target Price: ₹254.4

Duration: 12 months

EV/EBITDA: 17	OPM: 19.10%	D/E: 0.60	ROCE: 46.31%	Promoter Holding: 75.00%
Price to Sales: 3.05	NPM: 12.30%	Interest Coverage Ratio: 25.0	ROE: 43.29%	DII + FII: 1.22%

FUNDAMENTAL NOTES

Gufic manufactures & markets pharmaceutical formulations in dosage forms like injectables, syrups, ointments, lotions & caters to 80 % of the tertiary care hospitals covering > 1 lakh doctors & ~2 lakh retail counters with a product portfolio in 15+ therapy areas. It is one of the largest manufacturers of Lyophilised Injections in India. GBL has 4 business segments- Branded domestic formulation (50-55% of annual sales), International business/ Exports (9-12%), CMO (30%-35%), Active Pharmaceutical Ingredients (APIs)/ bulk drugs (5-10%). 190+ Products are registered across regulated & semi-regulated markets globally (in 15+ countries). Gufic is moated with differentiated products, better economies of scale in Lyophilisation & continuous launch of new products through innovation. GBL has manufacturing bases at Navsari, Gujarat (Unit-I & II) & Belgaum. It is the first Indian company to make Botulinum Toxin from scratch. Clientele comprises large players such as Glenmark Pharmaceuticals Ltd, Lupin Ltd, Abbott Healthcare Pvt Ltd etc.

TRIGGERS

BRIGHT PROSPECTS FOR GROWTH

We expect ~₹732 Cr topline in FY23 based on 15-20% growth over non COVID revenue (₹610 Cr) of FY22 with EBITDA margins in the range of 18% and PAT margin in the range of around 11.5%. The company will grow with the same momentum for next 3-4 years driven by upcoming Indore Capex and new product launches. Going forward, with a higher contribution of exports and branded domestic sales, the gross margins and the EBITDA margins should expand. GBL aspires to reach the top 3 players in the next 3 to 4 years in Fertility segment.

GEARING UP FOR INDORE FACILITY TO GO LIVE

Injectables (liquid and lyophilized) remain its key revenue contributor forming ~75- 80% of GBL's revenues in the past few fiscals. Out of the planned ₹220 Cr for Indore capex, ₹20 Cr will be spent on R&D facility & ₹200 Cr for adding Lyophilisation capacity of 36 mn vials p.a (95% addition over the existing capacity, with this GBL will be one of the largest manufacturers in the world of lyophilization) and PFS capacity of 15mn p.a. (45% of the existing capacity) along with 60mn units p.a for Liquid Injections. Indore plant will commercialise in Q1FY24 & contribution to revenue will start from May/ June (Q1FY24) with utilization of 30-35% in the first year of operation & 70% in 2.5-4 years. Commercialization has begun for the Penem block.

FORAY INTO GAME CHANGING BOTULINUM TOXIN FOR APPLICATIONS IN COSMETICS AND BEYOND

Gufic is the first Indian company to make Botulinum Toxin (STUNNOX for cosmetic application, Zarbot for Cerebral Palsy, Migraine & Over Active Bladder) from scratch. GBL will increase the market share of Botulinum Toxin range of products through the introduction of fast acting injectable and topical formulation (first in India and world). It has started a center of excellence- 'Arisia' to impart training to doctors.

INNOVATION DRIVEN DIFFERENTIATION WITH HEAVY INVESTMENTS IN RESEARCH ON BIOLOGICALS AND NDDS

The company is venturing into futuristic therapy areas like – Biologicals and Immuno-Oncology which is more complex & tough to get into. Several of these products would be first time launches in India. Gufic has been working on Special/New Drug Delivery Systems (NDDS) & has successfully launched dual chamber bags. There are 50+ major projects in pipeline across all therapy areas, 5 projects are ongoing in clinical phase while 12 are in pipeline.

RISKS

Indore facility will be online in Q1FY24 & because of the poor capacity utilization (which will be around 30%-35%) in first year along with the burdens of finance cost, depreciation & high RM usage, FY24 EBITDA margins will get negatively affected.

R&D expense is going to go up as Gufic ventures into complex molecules like peptides and biologicals. There are high chances of failure (more than 50%). Resource allocation is very critical as wide array of endeavors (expanding the capabilities in biologicals, getting expertise in NDDS and injectables, significant marketing spends for branded portfolio, intending to get into regulated markets such as US) have a huge monetary bearing.

The operations remain exposed to regulatory restrictions in terms of pricing caps in domestic markets and product/facility approvals in export destinations.

For Stunnox to grow big, it must compete with Korean brands (SIAX and Nabota) and 'Botox' (manufactured by Allergan, who is the global market leader) which are behemoth brands in this segment. Marketing costs may shoot up for GBL.