CareEdge RATINGS

SMS Lifesciences India Limited (Revised)

August 17, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-Term Bank Facilities	19.00	CARE BBB; Stable	Revised from CARE BBB+; Stable
Long-Term/Short-Term Bank Facilities	30.00	CARE BBB; Stable / CARE A3+	Revised from CARE BBB+; Stable / CARE A2
Short-Term Bank Facilities	0.32	CARE A3+	Revised from CARE A2

Details of instruments/facilities are in Annexure-1.

Rationale and key rating drivers

The rating revision to the bank facilities of SMS Lifesciences India Limited (SMS Life) takes into account decline in the TOI for FY23 (refers to the period April 01 to March 31) and profitability and loss reported by the entity at consolidated level for the first quarter of current year. The rating continues to derive strength from an experienced promoter group, established presence in the anti-ulcer segment, diversified and reputed client base, comfortable capital structure, satisfactory debt coverage indicatory and adequate liquidity position. The rating strengths are, however, tempered by product concentration risk, and presence in the highly fragmented and regulated bulk drug industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- ✓ Diversification in its product portfolio, wherein no single product contributes over 20% of total gross sales
- ✓ Improvement in profitability margins beyond 12-13% on a sustained basis with improvement in ROCE.

Negative factors

- × Overall gearing of the company deteriorating above 1.00x.
- × Elongation of the working capital cycle to more than 100 days continuously.

Analytical approach: Consolidated

Consolidated business and financial risk profiles of SMS Life and its subsidiaries namely Mahi Drugs Private Limited have been considered as this company is a subsidiary of SMS Life which operate in the same line of business and have financial and operational linkages. Further SMS Life has extended a corporate guarantee to Mahi Drugs Pvt Ltd

Outlook: Stable

CARE ratings believe that SMS Lifesciences India Limited would maintain a stable business profile backed by its track record of operations and associations with a reputed client base.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters with a strong track record in the pharmaceutical industry: SMS Life, originally promoted by Mr. P Ramesh Babu and Mr. TVVSN Murthy (Managing Director). Mr. TVVSN Murthy has over 30 years of experience in the pharmaceutical industry. He has worked for various reputed pharmaceutical companies and associated with Cheminor Drugs as a Production Manager. He played a key role in getting US FDA approval for Cheminor Drugs Limited. He co-promoted SMS Pharmaceuticals Limited in 1990. He played a vital role in production improvement, energy saving initiatives, expansion projects and R& D activities of SMS Pharma. SMS Life was a wholly owned subsidiary of SMS Pharma till its demerger with effect from May 17, 2017.

Established presence in Anti–ulcer (GAS) therapeutic segment: SMS Life, at a standalone level, has a portfolio of more than 12 APIs with an established presence in the GAS segment followed by the Anti-erectile dysfunction (EDF) therapeutic segment. The top 10 products of the portfolio accounted for 92% in FY22 (80% in FY21).

Diversified and reputed client base with a stable flow of repeat business: The company, on a standalone basis, has diversified revenue with the top 5 clients contributing 42.32% (48.70% in FY21) of the gross sales in FY22. These clients have long-standing relationships with an average age of 17 years of association with the group. The top five clients of the company during FY22 were, Mylan Laboratories Limited, Unique Pharmaceuticals Laboratories Limited, Ravico Pharmaceuticals, J B

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Chemicals & Pharmaceutical Ltd, Cadila Pharmaceuticals Limited and Sun Pharmaceutical Industries Limited which are globally well-renowned innovators in pharma and research.

Continued comfortable capital structure albeit moderate debt coverage ratios: SMS Life (consol.) continues to have a comfortable capital structure, with overall gearing below unity at 0.60x as on March 31, 2023 (0.48x as on March 31, 2022). The Debt risk metrics (term debt/GCA and total debt/GCA) have deteriorated in FY23 to 3.09x and 4.70x (against 1.21x and 2.26x in FY22) and the Interest coverage ratio PBILDT/interest declined to 4.68x during FY23 (5.87x during FY22) on account of reduction in profitability and increase in interest cost.

Stable industry outlook: The Indian pharmaceutical industry (IPI) is ranked 3rd globally in terms of volume and 13th in terms of value. Growth in the domestic pharma market is expected to be driven by an increase in the penetration of health insurance, improving access to healthcare facilities, rising prevalence of chronic diseases, and rising per capita income. The export growth is expected to be led by increasing generic penetration in the regulated markets on the back of enhanced focus on the niche and complex product segments, patent expiries, medicine patent pool announcing licensing agreements with pharmaceutical companies and growing demand from semi-regulated pharma markets.

Key weaknesses

A steady decline in TOI and losses reported during Q1FY2024: The company has reported a TOI of Rs.318.63 crore (Consol.) during FY23 as compared to a TOI of Rs.351.81 crore. The TOI declined by 9.43% compared to FY22. Simultaneously, the company has seen a decline in the topline for the last two quarters. In Q1FY24, the company reported a TOI of Rs.74.63 crore as against Rs.82.28 crore during Q1FY23. SMS Lifesciences India Limited reported a net loss of Rs.3.84 crore for Q1FY24 as compared to Rs.3.01 crore net profit during Q1FY23 and Rs.2.12 crore net profit during Q4FY23.

Low profitability margins: The PBILDT reduced from 10.30% during FY22 to 9.98% in FY23 due to a decrease in finished product prices. Similarly, the PAT margins (Consol.), also declined by 362 bps from 7.19% during FY22 to 3.57% during FY23. During Q1FY24, the PBILDT margins further dropped to 4.17%.

Product concentration risk: Ranitidine Hcl (Anti –ulcer (GAS) therapeutic segment) is the main product of the portfolio with 35.04% of contribution to gross sales in FY22 resulting in a single product concentration risk. Though the company faces product concentration risk concerning Ranitidine Hcl, SMS Life is one of the single largest manufacturers of Ranitidine and therefore enjoys a good market share concerning the same.

Working Capital-intensive operations: SMS Life operates in a working capital-intensive industry marked by a high inventory level and the company has to maintain stock of raw materials on account of lead time associated with imports and fluctuation in prices of raw material. The company's average working capital utilization (Standalone) remained moderate at around 65% for the 12 months ended May 2023.

Presence in the highly fragmented and regulated bulk drug industry: The company is exposed to regulatory risk with its operations centred majorly on manufacturing pharmaceutical APIs. The pharmaceutical industry is highly regulated in many other countries and requires various approvals, licenses, registrations and permissions for business activities. The approval process for new product registration is complex, lengthy and expensive. The time taken to obtain approval varies by country but generally takes from six months to several years from the date of application. Any delay or failure in getting approval for a new product launch could adversely affect the business prospect of the company

Liquidity: Adequate

The liquidity position of the company, at the consolidated level, remains adequate considering unutilized working capital limits of about 30-40%. The average working capital utilization of the company is 65% for the past 12 months ending May 2023. The company (consol.) has generated a GCA of Rs.22.16 crore during FY2023 as on March 31, 2023. The company has met all its debt obligations in FY2023.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments

[Manufacturing Companies](#)
[Pharmaceutical](#)
[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

SMS Lifesciences India Limited (SMS Life) was originally incorporated in May 2006 by Mr Hari Kishore Potluri, Ms Potluri Hima Bindu and their family members as a private limited company in the name of Potluri Real Estate Private Limited and subsequently changed its name to Potluri Packaging Industries Private Limited on November 6, 2013. Thereafter, the company changed its name to SMS Lifesciences India Limited on August 4, 2014. SMS Life was a Wholly Owned Subsidiary (WOS) of SMS Pharmaceuticals Limited (SMS) till May 17, 2017. Under the scheme of Arrangement approved by the National Company Law Tribunal (NCLT), SMS is the Demerged Company and SMS Life is the Resulting Company vide order dated May 15, 2017. The scheme became effective on May 17, 2017. With view to reduce the impact of semi-regulated units on regulated units, SMS has demerged its semi-regulated units under Food and Drug Administration (FDA) (i.e., Unit I-Kazipally unit (erstwhile unit I of SMS) Unit II-Jeedimetla unit (erstwhile unit IV of SMS) and Unit III-Bollaram unit (erstwhile unit V of SMS) and one R&D facility along with other assets, liabilities and investments and transferred to SMS Life. The company primarily caters to semi-regulated markets across India, Europe, and Asia and has a product base of more than 12 products under various therapeutic segments.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (UA)	Q1 FY2024 (UA)
Total operating income	346.65	318.12	75.26
PBILDT	32.39	29.28	3.14
PAT	25.38	13.22	-3.83
Overall gearing (times)	0.41	0.52	NA
Interest coverage (times)	7.00	5.75	1.44

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated instrument/facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	30/05/2026	19.00	CARE BBB; Stable
Fund-based - LT/ ST-Packing Credit in Foreign Currency		-	-	-	30.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-BG/LC		-	-	-	0.32	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (02-Mar-21) 2)CARE BBB+ (CW with Developing Implications) (20-Apr-20)
2	Non-fund-based - ST-BG/LC	ST	0.32	CARE A3+	-	1)CARE A2 (28-Sep-22)	1)CARE A2 (07-Jul-21)	1)CARE A2 (02-Mar-21) 2)CARE A2 (CW with Developing Implications) (20-Apr-20)
3	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST*	30.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A2 (28-Sep-22)	1)CARE BBB+; Stable / CARE A2 (07-Jul-21)	1)CARE BBB+; Stable / CARE A2 (02-Mar-21) 2)CARE BBB+ / CARE A2 (CW with Developing Implications) (20-Apr-20)
4	Fund-based - LT-Term Loan	LT	19.00	CARE BBB; Stable	-	1)CARE BBB+; Stable (28-Sep-22)	1)CARE BBB+; Stable (07-Jul-21)	1)CARE BBB+; Stable (02-Mar-21) 2)CARE BBB+ (CW with Developing Implications) (20-Apr-20)

*Long-term/Short-term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Packing Credit in Foreign Currency	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Karthik Raj K Director **CARE Ratings Limited** Phone: +91-80- 4662 5555 E-mail: karthik.raj@careedge.in
Relationship Contact Ramesh Bob A Director **CARE Ratings Limited** Phone: +91-40- 4010 2030 E-mail: ramesh.bob@careedge.in	Niraj Thorat Assistant Director **CARE Ratings Limited** Phone: +91-40- 4010 2030 E-mail: Niraj.Thorat@careedge.in Sriram Gurujala Goud Analyst **CARE Ratings Limited** E-mail: Sriram.Goud@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by methodologies congruent with international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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