

SMS Lifesciences India Limited

December 06, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|--|--------------------------------|-----------------------------|---------------|
| Long-term bank facilities | 47.40 (Enhanced from 19.00) | CARE BBB; Stable | Reaffirmed |
| Long-term / Short-term bank facilities | 50.00 (Enhanced from 30.00) | CARE BBB; Stable / CARE A3+ | Reaffirmed |
| Short-term bank facilities | 0.32 | CARE A3+ | Reaffirmed |

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings for the bank facilities of SMS Lifesciences India Limited (SMS Life) takes into account decline in the total operating income (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 H1FY24. The ratings continue 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 indicator 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 the total gross sales.
- Improvement in profitability margins beyond 12-13% on a sustained basis with improvement in return on capital employed (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 subsidiary, namely, Mahi Drugs Private Limited have been considered, as this company is a subsidiary of SMS Life which operates in the same line of business and have financial and operational linkages. Furthermore, SMS Life has extended a corporate guarantee to Mahi Drugs Private Limited.

Outlook: Stable

CARE Ratings believes that SMS Life 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 is promoted by TVVSN Murthy (Managing Director), who has over 30 years of experience in the pharmaceutical industry. He has worked for various reputed pharmaceutical companies and is associated with Cheminor Drugs Limited 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, and 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

At a standalone level, SMS Life has a portfolio of more than 12 active pharmaceutical ingredients (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 FY23 (92% in FY22).

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

Diversified and reputed client base with a stable flow of repeat business

The company, on a standalone basis, has diversified revenue with the top five clients contributing 39% (42% in FY22) of the gross sales in FY23. 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 FY23 were, Cadila Pharmaceuticals Limited, Mylan Laboratories Limited, Unique Pharmaceuticals Laboratories Limited, Natural Technology and Development Limited, and J B Chemicals & Pharmaceutical 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/gross cash accruals [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 the interest cost.

Stable industry outlook

The Indian pharmaceutical industry (IPI) ranks third 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 H1FY24**

The company has reported a TOI of ₹318.63 crore (Consol.) during FY23 as compared with the TOI of ₹351.81 crore. The TOI declined by 9.43% compared with FY22. Simultaneously, the company has seen a decline in the topline for the last two quarters. In H1FY24, the company reported a TOI of ₹160.08 crore as against ₹163.53 crore during H1FY23. SMS Life reported a net loss of ₹4.27 crore for H1FY24 as compared with ₹5.44 crore net profit during H1FY23 and ₹2.12 crore net profit during Q4FY23. The company has reported improvement in profitability at standalone level of ₹3.82 crore in H1FY24.

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 profit after tax (PAT) margins (Consol.), also declined by 362 bps from 7.19% during FY22 to 3.57% during FY23. During H1FY24, the PBILDT margins further dropped to 7.08%.

Product concentration risk

Ranitidine Hcl (anti-ulcer [GAS] therapeutic segment) is the main product of the portfolio with 48.29% of contribution to gross sales in FY23 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 utilisation (Standalone) remained moderate at around 67% for the 12 months ended September 2023.

Presence in the highly fragmented and regulated bulk drug industry

The company is exposed to the 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. Although the time taken to obtain approval varies by country, it generally takes from six months to several years from the date of application. CARE Ratings notes the fact that any delay or failure in getting approval for a new product launch could adversely affect the business prospects of the company.

Liquidity: Adequate

The liquidity position of the company, at the consolidated level, remains adequate considering unutilised working capital limits of about 30-40%. The average working capital utilisation of the company is 67% for the past 12 months ending September 2023.

The company (consol.) has generated a GCA of ₹22.16 crore during FY23 as on March 31, 2023. The company has met all its debt obligations in FY23 and H1FY24.

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 Life was originally incorporated in May 2006 by Hari Kishore Potluri, Potluri Hima Bindu and their family members as a private limited company in the name of Potluri Real Estate Private Limited. Subsequently, its name was changed to Potluri Packaging Industries Private Limited on November 6, 2013. Thereafter, the company changed its name to the present one, i.e., SMS Lifesciences India Limited on August 4, 2014. SMS Life was a wholly-owned subsidiary (WOS) of SMS Pharmaceuticals Limited 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 consolidated (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | H1FY24 (UA) |
|---|--------------------|--------------------|-------------|
| Total operating income | 351.13 | 315.88 | 160.08 |
| PBILDT | 35.54 | 29.07 | 11.34 |
| PAT | 25.30 | 11.38 | (4.27) |
| Overall gearing (times) | 0.48 | 0.53 | NA |
| Interest coverage (times) | 5.76 | 4.28 | 2.28 |

| Brief Financials standalone (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | H1FY24 (UA) |
|---------------------------------------|--------------------|--------------------|-------------|
| Total operating income | 346.65 | 315.56 | 142.40 |
| PBILDT | 32.39 | 26.73 | 15.51 |
| PAT | 25.38 | 13.22 | 3.82 |
| Overall gearing (times) | 0.41 | 0.53 | NA |
| Interest coverage (times) | 7.00 | 5.25 | 2.28 |

A: Audited UA: Unaudited NA: Not applicable; 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 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 | 47.40 | CARE BBB; Stable |
| Fund-based - LT/ ST-Packing credit in foreign currency | | - | - | - | 50.00 | 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 A3+ (17-Aug-23) | 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* | 50.00 | CARE BBB; Stable / CARE A3+ | 1)CARE BBB; Stable / CARE A3+ (17-Aug-23) | 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 | 47.40 | CARE BBB; Stable | 1)CARE BBB; Stable (17-Aug-23) | 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 on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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