Smruthi Organics Limited

February 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	12.00	CARE BBB; Stable	Assigned
Long Term / Short Term Bank Facilities*	20.00 (Enhanced from 15.00)	CARE BBB; Stable / CARE A3+	Revised from CARE BBB; Stable
Short Term Bank Facilities	13.00	CARE A3+	Reaffirmed

*Nature of facility changed from LT to LT/ST during current review.
Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings to the bank facilities of Smruthi Organics Limited (SOL) continues to derive comfort from extensive experience of promoters in the pharmaceutical industry, accredited manufacturing facilities, and comfortable financial risk profile. These rating strengths, however, remain tempered by modest scale of operations, product and customer concentration risk, competitive nature of business, and exposure to volatility in raw material prices, regulatory and foreign exchange fluctuation risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in TOI to more than ₹300 crore along with operation margin of 18% and above on sustained basis
- Ability of the company to reduce the therapeutic concentration risk with no segment contributing more than 30% along with diversifying its customer base
- Ability of the company to diversify geographically with significant level of revenues from regulated markets

Negative factors

- Deterioration in the overall gearing beyond 1x on sustained basis
- TOI falling below ₹100 crore and PBILDT margin falling below 10% on a sustained basis

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects the company's ability to maintain its comfortable financial risk profile while sustaining its existing operational performance over medium term

Detailed description of the key rating drivers:

Key strengths

Comfortable Financial risk Profile

As on March 31, 2023, the overall gearing of the company stood comfortable at 0.08 times (PY: 0.04 times). The debt coverage indicators also remained comfortable marked by total debt/ GCA which stood at 0.75x for FY23 as against 0.20x for FY22 respectively. Interest coverage remained healthy at 11.92x during FY23 (18.74x during FY22).
SOL is incurring a debt funded capex, which coupled with moderate profitability is likely to result in marginal deterioration in the capital structure and debt coverage indicators in the near term.

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

Experienced promoters in the bulk drug manufacturing Industry

SOL is managed/promoted by Mr. Purushotham Eaga and Mr. Swapnil Eaga, having more than 30 years and 15 years respectively in pharmaceutical industry. SOL's operating track record is of more than three decades in the pharmaceutical business with presence in the area of manufacturing of bulk drugs and APIs.

Accredited manufacturing units

The company has two manufacturing units located at Solapur in Maharashtra. The facilities are spread over an area of 22 acres with total annual capacity of around 5,800 MT, thus capable of handling large volumes. The plant is Good Manufacturing Practice (GMP) certified. The company's research and development department is recognized by the Directorate of Scientific and Industrial Research (DSIR), Government of India.

Key weaknesses

Moderation in profitability margins

The PBILDT margin of the company declined from 13.82% in FY22 to 6.95% in FY23, mainly on account of a significant increase in raw material prices and higher employee cost. PAT margin of the company witnessed a decline of 465bps to 2.93% (7.58% in FY22).

During 9MFY24 (refers to April 1 to December 31), the PBILDT margins marginally improved to reach 8.97% as compared to 7.17% during 9MFY23. Same were also impacted by competition from Chinese imports and expected to remain below 10% in the near term.

Susceptibility of operating margins to volatile raw material prices and foreign exchange rate

The key raw materials are procured from imports as well as domestic market, prices of which are volatile in nature. Since, raw material (contributed around 69% of cost of sales in FY23) is the major cost driver for the company, any upward movement in raw material prices, with limited increase in prices of finished products in an intensely competitive industry may result in adverse performance of the company. Further, SOL imports approximately 42% of its raw material from China and exports its products to several countries like Pakistan, Thailand, Argentina etc. In the absence of a hedging mechanism, although being a net exporter, the company is exposed to foreign currency fluctuation risk owing to timing differences

Product and customer concentration Risk

SOL is primarily an API manufacturer, with APIs representing more than 80% of revenue contribution and the remaining is accounted by intermediates. The product portfolio of the company is skewed as top 5 products derived close to 95% of the revenue in 9MFY24 as against 95% in FY23. While the share of top two products stood at over 55% of the revenue in FY23 and 9MFY24 each, reflecting high dependence on sales from top two products i.e. Metformin and Telmisartan. This apart, the customer concentration of the company continues to remain high with top 10 customer contributed over 70% of total sales in FY23 and 9MFY24.

Exposure to regulatory risk

The pharmaceutical industry is highly regulated and requires various approvals, licenses, registrations, and permissions for business activities. Each authority has its own requirement, and they could delay or refuse to grant approval, even when a product has already been approved in another country. The approval process for a new product registration is complex, lengthy, and expensive. Any delay or failure in getting approval for a new product launch could adversely affect the business prospects of the company. This apart, the ability of the company to continue to observe the regulatory and CGMP standards without receiving any adverse observations from regulatory authorities remains critical from a business and credit risk perspective. Furthermore, the company has substantial level of imports from China and exports to Pakistan, any geopolitical issues with such countries could materially impact the operations of the company.

Liquidity: Adequate

The company has a comfortable liquidity position characterized by expected net cash accruals in the range of ₹7-10 crore against negligible repayment obligations (₹0.36 crore pertains to vehicle loan and deferred sales tax loan). With a gearing of 0.08 times as of March 31, 2023, the company has sufficient gearing headroom to raise additional debt. Further, its unutilized bank lines are adequate to meet its incremental working capital needs over the next one year as bank limits are utilized to the extent of 38.24% in the last 12 months ended January 31, 2024.

Assumptions/Covenants: Not applicable

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

Applicable criteria

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

About the company and industry

Industry classification

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

SOL was established in 1989 by Mr. Purushotham Eaga (Managing Director) and is headquartered at Solapur, Maharashtra. Mr. Purushotham Eaga along with his son Mr. Swapnil Eaga manages the overall operations of the company. The company is engaged in the business of manufacturing and marketing active pharmaceutical ingredients (APIs) and intermediates. The product portfolio of the company consists of various APIs and intermediates including Metformin, Diloxanide Furoate, Norfloxacin, Telmisartan, Amlodipine, Potassium Losartan amongst others.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	133.37	141.06	88.00
PBILDT	18.43	9.80	7.89
PAT	10.10	4.13	2.07
Overall gearing (times)	0.04	0.08	NA
Interest coverage (times)	18.74	11.92	7.59

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 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		-	-	31/10/2030	12.00	CARE BBB; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	20.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-BG/LC		-	-	-	13.00	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/ ST-CC/Packing Credit	LT/ST*	20.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable (13-Mar-23)	1)CARE BBB; Stable (05-Jan-22) 2)CARE BB+; Stable; ISSUER NOT COOPERATING* (13-Aug-21)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (14-Sep-20)
2	Non-fund-based - ST-BG/LC	ST	13.00	CARE A3+	-	1)CARE A3+ (13-Mar-23)	1)CARE A3+ (05-Jan-22) 2)CARE A4+; ISSUER NOT COOPERATING* (13-Aug-21)	1)CARE A4+; ISSUER NOT COOPERATING* (14-Sep-20)
3	Fund-based - LT-Term Loan	LT	12.00	CARE BBB; Stable				

*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-CC/Packing Credit	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

Annexure-6: List of all the entities consolidated: Not applicable

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.

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