

## SMS Lifesciences India Limited

February 28, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	47.40	CARE BBB-; Stable; ISSUER NOT COOPERATING*	Downgraded from CARE BBB; Stable and moved to ISSUER NOT COOPERATING category
Long-term / Short-term bank facilities	50.00	CARE BBB-; Stable / CARE A3; ISSUER NOT COOPERATING*	Downgraded from CARE BBB; Stable / CARE A3+ and moved to ISSUER NOT COOPERATING category
Short-term bank facilities	0.32	CARE A3; ISSUER NOT COOPERATING*	Downgraded from CARE A3+ and moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.

\*Issuer did not cooperate; based on best available information.

### Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has been seeking information from SMS Lifesciences India Limited (SMS Life) to monitor ratings vide e-mail communications dated September 24, 2024, October 01, 2024, October 11, 2024, October 18, 2024, October 23, 2024, October 30, 2024, November 06, 2024, November 06, 2024, November 11, 2024, November 18, 2024, November 25, 2024, November 29, 2024, December 16, 2024, December 19, 2024, and February 05, 2025, among others and numerous phone calls. However, despite our repeated requests, the company has not provided requisite information for monitoring its ratings. In line with the extant SEBI guidelines, CARE Ratings has reviewed ratings based on best available information, which in CARE Ratings' opinion is not sufficient to arrive at a fair rating. Ratings on SMS Lifesciences India Limited (SMS Life) bank facilities will now be denoted as CARE BBB-; Stable, CARE A3; ISSUER NOT COOPERATING\*.

**Users of this rating (including investors, lenders, and public at large) are hence requested to exercise caution while using above rating(s).**

Ratings have been migrated to INC category due to non-availability of requisite information due to non-cooperation by SMS Lifesciences India Limited (SMS Life) with CARE Ratings' efforts to undertake a review of the outstanding ratings. CARE Ratings views information availability risk as a key factor in its assessment of credit rating.

### Analytical approach: Consolidated

Consolidated business and financial risk profiles of SMS Life and its subsidiary, 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. SMS Life has extended a corporate guarantee to Mahi Drugs Private Limited. The list of companies consolidated is attached as Annexure-6.

### 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 key rating drivers:

**At time of last rating on December 06, 2023, following were rating weaknesses and strengths (updated for the information available from stock exchange).**

### 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 across reputed pharmaceutical companies and is associated with Cheminor Drugs Limited as a Production Manager. He played a key role in getting the USFDA 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 on May 17, 2017.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

**Established presence in anti-ulcer (GAS) therapeutic segment**

At a standalone level, SMS Life has a portfolio of over 12 active pharmaceutical ingredients (APIs) with an established presence in the GAS segment followed by the anti-erectile dysfunction (EDF) therapeutic segment. Top 10 products of the portfolio accounted for 92% in FY23 (92% in FY22).

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

On a standalone basis, the company has diversified revenue with top five clients contributing 39% (42% in FY22) of gross sales in FY23. These clients have long-standing relationships with an average 17 years of association with the group. The company's top five clients in 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 despite moderate debt coverage ratios**

SMS Life (consolidated) 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). 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 (profit before interest, lease rentals, depreciation, and taxation [PBILDT]/interest) declined to 4.68x in FY23 (5.87x in FY22) considering 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. Export growth is expected to be led by increasing generic penetration in regulated markets considering enhanced focus on 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****Steady decline in total operating income (TOI) and losses reported in H1FY24**

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

**Low profitability margins**

PBILDT reduced from 10.30% in FY22 to 9.98% in FY23 due to a decrease in finished product prices. Similarly, profit after tax (PAT) margins (Consolidated), also declined by 362 bps from 7.19% in FY22 to 3.57% in FY23. In H1FY24, 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 considering lead time associated with imports and fluctuation in prices of raw material. The company's average working capital utilisation (Standalone) remained moderate at ~67% for the 12 months ended September 2023.

**Presence in 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 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 that delays or failures in getting approval for a new product launch could adversely affect the company's business prospects.

#### **Liquidity: Adequate**

The company's liquidity position remains adequate considering unutilised working capital limits of ~30-40% at the consolidated level. Average working capital utilisation is 67% for 12 months ending September 2023. The company (consolidated) has generated GCA of ₹22.16 crore in 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**

[Definition of Default](#)

[Policy in respect of non-cooperation by issuers](#)

[Consolidation](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

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#### **About the company and industry**

##### **Industry classification**

Macroeconomic 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 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 06, 2013. Thereafter, the company changed its name to the present one, SMS Lifesciences India Limited on August 04, 2014. SMS Life was a wholly owned subsidiary 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); Unit I-Kazipally unit (erstwhile unit I of SMS) Unit II-Jeedimetla unit (erstwhile unit IV of SMS), Unit III-Bollaram unit (erstwhile unit V of SMS), one R&D facility and 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 over 12 products across therapeutic segments.

Brief Financials consolidated (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25(UA)
Total operating income	315.88	307.78	255.61
PBILDT	29.07	32.94	40.14
PAT	11.38	6.33	15.25
Overall gearing (times)	0.53	0.52	-
Interest coverage (times)	4.28	3.24	6.02

A: Audited UA: Unaudited; Note: these are latest available financial results

Brief Financials standalone (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	315.56	301.90	247.94
PBILDT	26.73	36.33	40.38
PAT	13.22	13.07	18.69

Overall gearing (times)	0.53	0.52	-
Interest coverage (times)	5.25	4.08	6.68

A: Audited UA: Unaudited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	30/05/2026	47.40	CARE BBB-; Stable; ISSUER NOT COOPERATING*
Fund-based - LT/ ST-Packing Credit in Foreign Currency		-	-	-	50.00	CARE BBB-; Stable / CARE A3; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC		-	-	-	0.32	CARE A3; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; based on best available information.

**Annexure-2: Rating history for 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 2024-2025	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
1	Non-fund-based - ST-BG/LC	ST	0.32	CARE A3; ISSUER NOT COOPERATING*	-	1)CARE A3+ (06-Dec-23) 2)CARE A3+ (17-Aug-23)	1)CARE A2 (28-Sep-22)	1)CARE A2 (07-Jul-21)
2	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST	50.00	CARE BBB-; Stable / CARE A3; ISSUER NOT COOPERATING*	-	1)CARE BBB; Stable / CARE A3+ (06-Dec-23) 2)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)
3	Fund-based - LT-Term Loan	LT	47.40	CARE BBB-; Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB; Stable (06-Dec-23) 2)CARE BBB; Stable (17-Aug-23)	1)CARE BBB+; Stable (28-Sep-22)	1)CARE BBB+; Stable (07-Jul-21)

\*Issuer did not cooperate; based on best available information.

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of 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](#)

**Annexure-6: List of entities consolidated**

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Mahi Drugs Private Limited	Proportionate	Partially owned subsidiary

**Note on complexity levels of 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](mailto:care@careedge.in) for clarifications.

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### 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 the methodologies congruent with the 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.

### Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

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