Smruthi Organics Limited

March 17, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	11.00 (Reduced from 12.00)	CARE BBB; Negative	Reaffirmed
Long-term / Short-term bank facilities	15.00 (Reduced from 20.00)	CARE BBB; Negative / CARE A3+	Reaffirmed
Short-term bank facilities	7.00 (Reduced from 13.00)	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings to 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. However, rating strengths remain tempered by moderate scale of operations, moderate profitability, product and customer concentration risk, susceptibility of operating margins to volatile raw material prices, foreign exchange rate and exposure to regulatory risk**.**

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in total operating income (TOI) to over ₹300 crore and operation margin of 18% and above on a sustained basis.
- The company's ability to reduce the therapeutic concentration risk with no segment contributing over 30% and diversifying its customer base.
- The company's ability to diversify geographically with significant level of revenues from regulated markets.

Negative factors

- Deterioration in the overall gearing beyond 1x on a sustained basis.
- Total debt to profit before interest, lease rentals, depreciation and taxation (PBILDT) of over 2.25x on sustained basis.
- Deterioration in working capital cycle of over 140 days on a sustained basis.

Analytical approach: Standalone

Outlook: Negative

The 'Negative' outlook reflects CARE's expectation of moderation in SOL's performance owing to continued pricing pressure for its key products. The outlook may be revised to 'Stable' if the company is able to achieve steady sales growth in the medium term along with improvement in its profitability.

Detailed description of key rating drivers:

Key strengths

Experienced promoters in the bulk drug manufacturing Industry

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

Accredited manufacturing units

The company has two manufacturing units at Solapur in Maharashtra. Facilities are spread over an area of 22 acres with total annual capacity of ~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 recognised by the Directorate of Scientific and Industrial Research (DSIR), Government of India.

Comfortable capital structure and satisfactory debt coverage indicators

As on March 31, 2024, the company's overall gearing stood comfortable at 0.17x (PY: 0.08x). Debt coverage indicators also remained satisfactory marked by total debt to gross cash accruals (TD/GCA) of 1.36x in FY24 (refers to April 01 to March 31) against 0.75x for FY23. Interest coverage remained healthy at 8.56x in FY24 (11.92x in FY23). In 9MFY25 (refers to April 01 to December 31) considering lower profitability and increase in finance cost due to addition of term debt, interest coverage deteriorated to 5.57x (7.59x in 9MFY24).

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

Key weaknesses

Moderate scale of operations

SOL's TOI has remained moderate in range of ₹125 crore to ₹140 crore in FY20- FY24. In FY24, the company's revenue declined and remained at ₹127.72 crore against ₹141.06 crore in FY23 considering continued pressure on selling prices for SOL's key products in domestic and international markets. In 9MFY25, SOL reported TOI of ₹87.93 crore against ₹88 crore in 9MFY24. In the near term, prices are expected to remain low, which could affect SOL's sales growth. SOL's ability to improve its scale of operations would remain a key rating monitorable.

Moderate profitability

The company's PBILDT margin improved from 6.95% in FY23 to 9.37% in FY24, mainly benefitting from lower raw material prices. The company's profit after taxation (PAT) margin remained in line with previous year at 2.81% in FY24 against 2.93% in FY23. However, considering dip in sales realisation and competition from Chinese imports the company's profitability declined in 9MFY25 to 8.55% (8.97% in 9MFY24). PAT margins remained moderate at 2.81% in FY24 (2.93% in FY23). However, considering increase in finance cost in, PAT margins declined to 1.51% in 9MFY25 (2.35% in 9MFY24). SOL's ability to improve its profitability would remain a key rating monitorable.

Product and customer concentration Risk

SOL is primarily an API manufacturer, with APIs representing over 80% of revenue contribution and the remaining is accounted by intermediates. The company's product portfolio is skewed as top five products contributed ~94% of the revenue in FY24 against 95% in FY23. The share of top two products stood at ~50% of the revenue in FY24 and 9MFY25 each reflecting high dependence on sales from top two products Metformin and Diloxanide Furoate. The company's customer concentration continues to remain high with top 10 customer contributed over 62% of total sales in FY24 and 70% in 9MFY25.

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

Key raw materials are procured from imports and domestic market, prices of which are volatile. Since raw material is the major cost driver for the company, upward movement in raw material prices, with limited increase in prices of finished products in an intensely competitive industry may result in the company's adverse performance. SOL imports ~52% of its raw material from China and exports its products to several countries including Pakistan, Thailand, and Argentina among others with no long- term contracts with its customers. 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.

Exposure to regulatory risk

The pharmaceutical industry is highly regulated and requires 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. Delays or failures in getting approval for a new product launch could adversely affect the company's business prospects. The company's ability to continue to observe regulatory and CGMP standards without receiving adverse observations from regulatory authorities remains critical from a business and credit risk perspective. The company has substantial level of imports from China and exports to Pakistan, geopolitical issues with such countries could materially impact the company's operations.

Liquidity: Adequate

The company has adequate liquidity position characterised by expected net cash accruals against scheduled debt repayment obligations. SOL is expected to generate GCA of ~₹9-10 crore in the medium term against debt repayment obligation of ~₹2 crore. With a gearing of 0.17x as of March 31, 2024, the company has sufficient gearing headroom to raise additional debt. Its unutilised bank lines are adequate to meet its incremental working capital needs in the next one year as bank limits are utilised to the extent of 23% for 12-months ended January 31, 2025.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Nonfinancial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals & biotechnology	Pharmaceuticals

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

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	141.06	127.65	87.93
PBILDT	9.80	11.96	7.52
PAT	4.13	3.59	1.33
Overall gearing (times)	0.08	0.17	NA
Interest coverage (times)	11.92	8.56	5.57

A: Audited UA: Unaudited NA: Not available; 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		-	-	31/10/2030	11.00	CARE BBB; Negative
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	15.00	CARE BBB; Negative / CARE A3+
Non-fund-based - ST-BG/LC		-	-	-	7.00	CARE A3+

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	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	15.00	CARE BBB; Negative / CARE A3+	1)CARE BBB; Negative / CARE A3+ (06-Aug-24)	1)CARE BBB; Stable / CARE A3+ (13-Feb-24)	1)CARE BBB; Stable (13-Mar-23)	1)CARE BBB; Stable (05-Jan-22) 2)CARE BB+; Stable; ISSUER NOT COOPERATING* (13-Aug-21)
2	Non-fund-based - ST-BG/LC	ST	7.00	CARE A3+	1)CARE A3+ (06-Aug-24)	1)CARE A3+ (13-Feb-24)	1)CARE A3+ (13-Mar-23)	1)CARE A3+ (05-Jan-22) 2)CARE A4+; ISSUER NOT COOPERATING* (13-Aug-21)
3	Fund-based - LT-Term Loan	LT	11.00	CARE BBB; Negative	1)CARE BBB; Negative (06-Aug-24)	1)CARE BBB; Stable (13-Feb-24)	-	-

*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-CC/Packing Credit	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

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 for clarifications.

Contact us

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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.

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