SMS Pharmaceuticals Limited

December 04, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	350.87	CARE A; Positive	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	52.83	CARE A1	Upgraded from CARE A2+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in outlook from 'Stable' to 'Positive' for long-term bank facilities and revision in short-term rating to CARE A1 reflects SMS Pharmaceuticals Limited (SMS) reflects consistent growth in financial performance in FY25 (FY 25 refers to the period April 01 to March 31) and its strengthened financial performance in H1FY26. The company recorded ~21% year-on-year revenue growth with healthy profitability margin of ~20%. CareEdge Ratings expects SMS to report healthy growth in its total operating income (TOI), supported by an improved product mix, expanded capacities, and backward integration. Operating margins are anticipated to be in line with H1FY26 levels alongside an improvement in return on capital employed (ROCE) levels.

The improvement is primarily driven by commercialisation of second phase of Anti-inflammatory API production line and backward integration of key starting materials by Q2FY26, providing a competitive edge. Higher volumes of anti-inflammatory API volumes and product mix optimisation, with increased contribution from Anti-Retroviral (ARV) and other high-value segments, supported margins. Liquidity stood adequate reflected by sufficient gross cash accruals, positive operating cash flows with efficient working capital management, has resulted in low reliance on bank limits and substantial unencumbered cash balances. Efficient working capital management refers to timely collection of receivables and controlled payables, while elongated operating cycle persists due to high inventory holding requirements, as the business model requires holding high levels of raw materials, intermediates, and finished goods due to the multi-stage manufacturing process and stringent quality and regulatory requirements inherent to active pharmaceutical ingredient (API) production.

Enhanced Anti-inflammatory API production capacity and improving production efficiency are expected to support revenue scalability and improvement in margin over the medium term. CARE Ratings Limited (CareEdge Ratings) expects SMS to maintain revenue growth above 15% and healthy profitability margins in FY26, supported by new capacities, strong ARV demand and high value products, and improved return on capital employed (ROCE) from recent capex investments.

SMS benefits from an experienced management team with over three decades in API manufacturing. Strong relationships with diversified clientele across regulated and semi-regulated markets and a broad product basket across ARVs, anti-inflammatory, anti-ulcerants, and other APIs ensure revenue diversification.

Financial risk profile remains comfortable with healthy net worth, prudent gearing, and strong debt coverage. Unforeseen debt impacting the financial risk profile remains a key monitorable.

However, rating strengths are constrained by elongated operating cycle due to high inventory requirements, exposure to raw material price volatility, and foreign exchange fluctuations given export orientation. Intense competition and regulatory risks from stringent compliance norms and periodic global inspections also persist.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Total operating income (TOI) rising above ₹1,000 crore with profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 20% and ROCE of ~16-17% on a sustained basis.
- Overall gearing reducing below 0.25x and total debt to PBILDT below 1.5x on a sustained basis.

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

Negative factors

- Significant decline in TOI and PBILDT margin falling below 15%.
- Total debt to PBILDT exceeding 2.5x.
- Elongation of its working capital cycle, significantly affecting its cash flow from operations.

Analytical approach: Standalone

Outlook: Positive.
CareEdge Ratings expects SMS to report healthy growth in its total operating income (TOI), supported by an improved product mix, expanded capacities, and backward integration. The company is likely to sustain operating margins in line with H1FY26 and achieve better ROCE levels. Outlook may be revised to 'Stable' if revenue growth or profitability margins fall below expectations or if debt coverage metrics weaken.

Detailed description of key rating drivers:

Key strengths

Sustained growth in revenue and profitability in FY25 and H1FY26
SMS reported consistent improvement in operational performance in FY25 and H1FY26. In FY25, revenue stood at ₹788 crore, up 11% from ₹712 crore in FY24. Growth was led by higher ARV segment contribution and increased Anti-inflammatory segment sales, supported by strong domestic and export demand. Momentum continued in H1FY26 with revenue of ₹441 crore, up 21% year-on-year. Performance was aided by better capacity utilisation, steady product off-take, and favourable product mix.

CareEdge Ratings expects SMS to maintain revenue growth above 15% in FY26, supported by strong ARV demand and improved capacity utilisation.
Profitability also improved significantly, aided by better realisations, stronger contribution from high-margin products, and improved operational efficiencies. The PBILDT margin increased to 18.41% in FY25, compared to 16.47% in FY24. The margin further strengthened to 20.27% in H1FY26, primarily considering successful completion of backward integration initiatives, which enabled the company to manufacture key starting materials (KSMs) for its existing product lines. This backward integration has enhanced cost competitiveness and reduced dependence on external suppliers, supporting margin stability.

Comfortable financial risk profile
The company's financial risk profile remains comfortable, supported by a moderate leverage position and improved debt-protection metrics. Overall gearing stood at 0.46x as on March 31, 2025, reflecting prudent debt levels relative to the company's net worth. Improvement in profitability in FY25 contributed to stronger coverage indicators, with the interest coverage ratio improving to 7.82x (PY: 5.11x) and total debt to gross cash accruals (TD/GCA) strengthening to 2.88x (PY: 3.39x). The company had availed a term loan of ₹100 crore in FY24 to support its capacity expansion programme and backward integration initiatives. However, with steady repayment of term loan and healthy internal accrual generation, capital structure is expected to improve further in the medium term.

Overall, financial risk profile is anticipated to remain comfortable, underpinned by improved profitability, stable cash flows, and the company's conservative approach to debt utilisation.

Proven track record and experienced management
SMS benefits from a long operational track record and an experienced leadership team. The company is promoted by Sri Ramesh Babu Potluri, who serves as the Chairman and Managing Director and brings over three decades of experience in the pharmaceutical industry. Under the guidance of current promoters, SMS has established and expanded its manufacturing capabilities, currently operating two commercial manufacturing units (Unit II and Unit VII) and a dedicated R&D centre.

The company's day-to-day operations are actively overseen by the promoters, supported by a team of qualified and experienced professionals across production, quality, regulatory affairs and marketing. The strong managerial bandwidth and established industry expertise continue to support the company's operational stability, strategic decision-making and long-term business growth.

Integrated and accredited manufacturing facility
SMS operates integrated manufacturing facilities with strong regulatory compliance, enabling the company to cater to highly regulated international markets. A significant portion of SMS's export revenues is generated from sales to markets such as the

US, Europe, Japan and Brazil, which mandate adherence to stringent quality and manufacturing standards prescribed by global regulatory authorities including the USFDA, cGMP, EDQM and Anvisa-Brazil.
The company's Unit II and Unit VII possess the requisite regulatory accreditations to supply to these markets. Unit II is approved by the USFDA, PMDA Japan, European regulatory authorities, Anvisa-Brazil and TGA-Australia, while Unit VII holds approvals from the USFDA, PMDA Japan, European regulatory authorities, and Anvisa-Brazil. These certifications not only enable market access but also reinforce the company's capability to meet global quality benchmarks, supporting long-term business stability and customer confidence.

Moderately diversified customer base and product portfolio
SMS maintains a diversified product portfolio across 14 therapeutic segments. Key categories such as anti-diabetic, ARV, anti-inflammatory, anti-migraine, and anti-ulcer accounted for 83% of FY25 revenue. SMS benefits from a reputed and geographically diversified customer base across domestic and international formulators. Top five customers contributed 55% of FY25 revenue, indicating moderate concentration but strong long-term relationships.

Completion of capital expenditure undertaken
SMS successfully completed its planned capex programme aimed at capacity expansion and backward integration. The project included (i) capacity expansion for existing products, (ii) two new blocks for key starting materials (KSMs), and (iii) solvent recovery system enhancement for efficiency and cost competitiveness. Total project cost was ₹130 crore, funded by ₹100 crore term loan and ₹30 crore internal accruals. Final cost was ₹135.14 crore, with marginal overrun met through internal accruals, reflecting strong cash generation. Commercial operations began in June 2025, and benefits are visible in FY26 through improved cost efficiency and margins.

SMS plans additional KSM backward integration/expansion of production for ~₹40 crore in FY27-FY28, to be funded through internal accruals or share warrants. Unforeseen debt for capex that weakens financial risk profile remains a key monitorable.

CareEdge Ratings expects the completed capex to support margin improvement and revenue scalability in the near term.

Key weaknesses

Elongated operating cycle
Operating cycle remained elongated at 167 days in FY25 from 156 days in FY24, driven by higher inventory levels as the business model requires holding high levels of raw materials, intermediates, and finished goods due to multi-stage manufacturing process, and stringent quality and regulatory requirements inherent to API production However, the collection period remained at similar level at 95 days (FY24: 92 days). This is considering higher receivables as of March 31, 2025, resulting from increased sales in Q4FY25. Despite the increase, majority receivables were not due as of the fiscal year-end. CareEdge Ratings expects the operating cycle to remain elongated in the near term given the nature of operations, though efficient receivable management is likely to support liquidity.

Presence in highly fragmented and competitive industry apart from increasing regulatory risk
The Indian pharmaceutical industry (IPI) is highly fragmented with the presence of thousands of players in the APIs and formulations business. The increasing regulation, increased sensitivity towards product performance, and pricing pressure are the key challenges faced by the IPI. SMS's scale of operations remains modest in a competitive industry, which restricts pricing flexibility to a certain extent. However, having a few niche products in its portfolio partially offsets the pricing challenges and helps maintain profitability margins within a certain range. The pharmaceutical industry is highly regulated, with regulations in place for drug quality, manufacturing process, patents, and product prices. The approval process for a new product registration is complex, lengthy, and expensive. Non-compliance may result in regulatory ban on products or facilities and may impact a company's further growth. Hence, ongoing regulatory compliance has become critical for Indian pharmaceutical companies.

Liquidity: Adequate
The company maintains adequate liquidity position, supported by GCA of ~₹108 crore in FY25 and ₹64 crore in H1FY26 against debt repayment obligation of ~₹40 crores in FY26. Free cash and bank balance as of September 30, 2025, stood at ₹98.52 crore (which includes share warrant proceeds of ~₹ 23.82 crore). Current ratio at 1.67x as on March 31, 2025, with positive cash flow from operations of ~₹ 78.96 crore with efficient management of working capital. The company's reliance on bank borrowings for working capital is moderate, marked by an average working capital limit utilisation of 70% for 12 months ended October 31, 2025.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

Parameters	Risk Factors
Environmental	• The company ensures compliance with environmental regulations. By implementing a zero liquid discharge plants, the company aims to eliminate liquid waste discharge, reducing environmental impact. • The company has implemented a multiple effect evaporator (MEE) system to separate solids from liquid effluents, and a reverse osmosis (RO) system and biological treatment, as part of its water conservation efforts. The water recovered through this process is reused after condensation, with ~43,238 KL of water recycled daily.
Social	• The company undertakes CSR initiatives such as building community infrastructure, supporting healthcare for the underprivileged, and improving educational facilities. • Implementing safety protocols, conducting regular risk assessments to prevent hazards, and providing comprehensive safety training to all employees and workers.
Governance	Complies with corporate governance provisions as specified in SEBI (LODR) regulations.

Applicable criteria

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

About the company and industry

Industry classification

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

Listed on BSE and NSE, SMS is promoted by Sri Ramesh Babu Potluri (Chairman and Managing Director). It is engaged in manufacturing APIs and its intermediates and undertakes contract manufacturing for API/ bulk drugs. Currently, SMS has two regulated facilities (Unit II and Unit VII) in Telangana and Andhra Pradesh. The company supplies to pharmaceutical/ companies across North America, Europe and has presence in over 70 countries across the globe.

Brief Financials (₹ crore)	March 31, 2024 (A)	March 31, 2025 (A)	H1FY26 (UA)
Total operating income	712.16	787.83	440.50
PBILDT	119.75	145.07	89.27
PAT	49.42	68.38	43.35
Overall gearing (times)	0.49	0.46	0.43
Interest coverage (times)	5.11	7.82	7.71

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-Cash Credit		-	-	-	141.00	CARE A; Positive
Fund-based - LT-Packing Credit in Foreign Currency		-	-	-	40.00	CARE A; Positive
Fund-based - LT-Term Loan		-	-	March 2031	169.87	CARE A; Positive
Fund-based - ST-Standby Line of Credit		-	-	-	16.00	CARE A1
Non-fund-based - ST-Bank Guarantee		-	-	-	2.00	CARE A1
Non-fund-based - ST-Forward Contract		-	-	-	4.83	CARE A1
Non-fund-based - ST-Letter of credit		-	-	-	30.00	CARE A1

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 2025-2026	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
1	Fund-based - LT-Cash Credit	LT	141.00	CARE A; Positive	-	1)CARE A; Stable (10-Oct-24)	1)CARE A; Negative (07-Dec-23)	1)CARE A; Negative (03-Nov-22) 2)CARE A; Negative (03-Oct-22)
2	Non-fund-based - ST-Letter of credit	ST	30.00	CARE A1	-	1)CARE A2+ (10-Oct-24)	1)CARE A2+ (07-Dec-23)	1)CARE A2+ (03-Nov-22) 2)CARE A2+ (03-Oct-22)
3	Fund-based - LT-Term Loan	LT	169.87	CARE A; Positive	-	1)CARE A; Stable (10-Oct-24)	1)CARE A; Negative (07-Dec-23)	1)CARE A; Negative (03-Nov-22) 2)CARE A; Negative (03-Oct-22)
4	Fund-based - ST-Standby Line of Credit	ST	16.00	CARE A1	-	1)CARE A2+ (10-Oct-24)	1)CARE A2+ (07-Dec-23)	1)CARE A2+ (03-Nov-22) 2)CARE A2+ (03-Oct-22)
5	Fund-based - LT-Packing Credit in Foreign Currency	LT	40.00	CARE A; Positive	-	1)CARE A; Stable (10-Oct-24)	1)CARE A; Negative (07-Dec-23)	1)CARE A; Negative (03-Nov-22) 2)CARE A; Negative (03-Oct-22)
6	Non-fund-based - ST-Bank Guarantee	ST	2.00	CARE A1	-	1)CARE A2+	1)CARE A2+	1)CARE A2+

						(10-Oct-24)	(07-Dec-23)	(03-Nov-22) 2)CARE A2+ (03-Oct-22)
7	Non-fund-based - ST-Forward Contract	ST	4.83	CARE A1	-	1)CARE A2+ (10-Oct-24)	1)CARE A2+ (07-Dec-23)	1)CARE A2+ (03-Nov-22) 2)CARE A2+ (03-Oct-22)

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-Cash Credit	Simple
2	Fund-based - LT-Packing Credit in Foreign Currency	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based - ST-Standby Line of Credit	Simple
5	Non-fund-based - ST-Bank Guarantee	Simple
6	Non-fund-based - ST-Forward Contract	Simple
7	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Note on complexity levels of rated instruments: CareEdge 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.

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About us:

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