SMS Pharmaceuticals Limited

September 09, 2026

Facilities/Instruments	Name of the Regulator[1]	Amount (₹ crore)	Rating[2]	Rating Action
Long-term bank facilities	RBI	570.07 (Enhanced from 350.87)	CARE A; Stable	Reaffirmed; Outlook revised from Positive
Short-term bank facilities	RBI	52.83	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in outlook from Positive to Stable reflects SMS Pharmaceuticals Limited's (SMS's) recently announced debt-funded capex commitment, which was not contemplated at the time of previous rating review and is likely to moderate credit metrics in the medium term. Successful completion of the capex and the company deriving envisaged benefit from this will remain a key rating monitorable. Ratings continue to derive comfort from SMS's modest leverage and healthy debt protection metrics, which provide adequate financial flexibility. While the ongoing capacity expansion is expected to support the company's scale and profitability in the medium term, full benefits of the expanded capacities are expected to accrue from FY28.

Reaffirmation of ratings continues to derive strength from the experienced management team with a long and proven track record of operations, improvement in scale and profitability in FY26 (Audited) and Q1FY27 (Abridged; FY refers to April 01 to March 31), a diversified and reputed clientele, presence across several therapeutic segments, and a comfortable financial risk profile.

These rating strengths are partially offset by the ongoing debt-funded capex programme and associated execution risks. The additional debt incurred for the capex programme, which was not envisaged earlier, is expected to result in increased leverage in the near term. Timely completion of the project within envisaged cost and timelines, and successful ramp-up of expanded capacities and backward-integration facilities, remains critical from a credit perspective. Ratings are also constrained by the elongated working capital cycle and the company's presence in a competitive and highly regulated industry.

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%.
- Overall gearing reducing below 0.25x and total debt (TD) to PBILDT below 2.25x on a sustained basis.
- Successful completion of the project per envisaged timelines and deriving benefits.

Negative factors

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

Analytical approach: Standalone

Outlook: Stable. CareEdge Ratings Limited (CareEdge Ratings) expects that the entity will continue to benefit from its presence in diversified therapeutic segments.

Detailed description of key rating drivers

Key strengths

Sustained growth in revenue and profitability in FY26 and Q1FY27

SMS reported sustained improvement in its operating performance in FY26 and Q1FY27. In FY26, revenue increased by 13% to ₹892 crore from ₹788 crore in FY25, driven by higher contribution from the antiretroviral (ARV) segment and increased sales of

[1]SEBI: Securities and Exchange Board of India; RBI: Reserve Bank of India; MCA: Ministry of Corporate Affairs; IRDAI: Insurance Regulatory and Development Authority of India; PFRDA: Pension Fund Regulatory and Development Authority.

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

anti-inflammatory products and healthy demand. The growth momentum continued in Q1FY27, with revenue increasing by 6% year-over-year (y-o-y) to ₹207 crore from ₹196 crore in Q1FY26. The revenue mix witnessed a shift towards ARV products, whose contribution increased to 28.39% in FY26 from 20.80% in FY25, and further to 31.51% in Q1FY27, while the contribution from anti-inflammatory products also increased. Profitability remained healthy, with PBILDT margin improving to 19.78% in FY26, from 18.41% in FY25, and further to 20.24% in Q1FY27. The improvement was driven by better realisations, higher contribution from high-margin products, operational efficiencies and benefits from backward integration initiatives. Going forward, the ongoing capex is expected to support further revenue growth and profitability through expansion and backward integration of key Ibuprofen intermediates. Expanded capacities are expected to provide incremental revenue contribution from FY28, following the scheduled commencement of commercial operations in July 2027.

Comfortable financial risk profile
The company's financial risk profile remained comfortable in FY26, supported by moderate leverage and healthy debt-protection metrics. Overall gearing stood at 0.46x as on March 31, 2026, while interest coverage and TD to gross cash accruals (TD/GCA) remained comfortable at 7.65x and 2.80x, respectively. In FY26, the company secured sanction of a ₹180 crore term loan from Exim Bank, of which part was disbursed in FY26, with the balance expected to be disbursed in FY27, towards the ongoing capex. The company also availed a ₹40 crore loan against property (LAP) loan in FY26, resulting in TD increasing to ₹365.05 crore from ₹310.76 crore in FY25. The incremental debt is primarily towards the ongoing capacity expansion and backward integration project, which is expected to support higher scale of operations and cash accruals from FY28. Accordingly, TD is projected at ₹502.83 crore in FY27, with overall gearing at 0.56x. Despite the planned increase in debt, the financial risk profile is expected to remain comfortable, supported by healthy profitability, and strong internal accrual generation.

Proven track record and experienced management
SMS benefits from a long operational track record and experienced management. The company is promoted by Sri Ramesh Babu Potluri, Chairman and Managing Director, who has over three decades of experience in the pharmaceutical industry. Under promoters' leadership, SMS has established and expanded its manufacturing capabilities, currently operating two commercial manufacturing units, Unit II and Unit VII, and a dedicated research and development (R&D) centre. Promoters remain actively involved in day-to-day operations, supported by experienced professionals across production, quality, regulatory affairs, and marketing. The established track record and strong managerial capabilities support the company's operational stability and growth plans.

Integrated and accredited manufacturing facilities
SMS operates integrated manufacturing facilities with strong regulatory compliance, enabling it to cater to regulated international markets. The company derives a significant portion of its export revenue from markets, such as the United States (the US), Europe, Japan, and Brazil, which require compliance with stringent quality and manufacturing standards. Unit II and Unit VII have approvals from key regulatory authorities, including United States Food and Drug Administration (USFDA), Pharmaceuticals and Medical Devices Agency (PMDA) Japan, European regulatory authorities and Anvisa-Brazil, with Unit II also approved by Therapeutic Goods Administration (TGA), Australia. These accreditations provide SMS with access to regulated markets and demonstrate its ability to adhere to global quality standards, supporting customer confidence and business stability.

Moderately diversified customer base and product portfolio
SMS maintains a diversified product portfolio across 14 therapeutic segments, with key segments including ARV, anti-inflammatory, anti-migraine, anti-diabetic, and anti-ulcer products. The product mix has witnessed a shift towards ARV and anti-inflammatory products, with their contribution increasing to 28.39% and 19.96%, respectively, in FY26, and further to 31.51% and 22.67% in Q1FY27. SMS benefits from a reputed and geographically diversified customer base comprising domestic and international formulators. Top five customers accounted for ~53% of FY26 revenue and 50% of Q1FY27 revenue, indicating moderate customer concentration. However, the company has established relationships with several reputed pharmaceutical players, including Lupin, Granules India, Dr. Reddy's Laboratories, and Chemo, providing some comfort against customer concentration risk.

Key weaknesses
Elongated operating cycle
SMS continues to have an elongated operating cycle, which increased to 178 days in FY26 from 167 days in FY25, primarily due to high inventory requirements arising from the multi-stage manufacturing process and stringent quality and regulatory requirements associated with active pharmaceutical ingredient (API) production. Average inventory days increased to 161 days in FY26 from 148 days, while the collection period improved to 78 days from 95 days, supported by better receivables management. Going forward, the operating cycle is expected to remain elevated at ~195 days in FY27, mainly due to the

inventory-intensive nature of operations. However, the company's improving collection cycle and comfortable liquidity position provide some mitigation.

Presence in highly fragmented and competitive industry with increasing regulatory risks
The Indian pharmaceutical industry remains highly fragmented and competitive, with the presence of numerous players across API and formulations segments. Pricing pressure, increasing regulatory requirements, and sensitivity towards product quality and performance remain key challenges. SMS's scale of operations remains moderate; however, its niche product portfolio, presence across multiple therapeutic segments and accreditations from key international regulatory agencies provide some competitive advantages and support its profitability. The pharmaceutical industry is also highly regulated, with stringent requirements relating to drug quality, manufacturing processes, product registrations, patents and pricing. Regulatory non-compliance could lead to adverse actions, including restrictions on products or manufacturing facilities, affecting operations and growth. Hence, continued compliance with domestic and international regulatory requirements remains a key monitorable for SMS.

Debt-funded capex
The project involves expansion, backward integration and multi–API Block A2 to meet upcoming products, which are under development at R&D, with a total project cost of ₹280.78 crore, funded through a ₹180 crore term loan and ₹100.78 crore internal accruals. As of June 30, 2026, ₹121.01 crore (43.1% of project cost) had been incurred, comprising ₹35 crore through term loan disbursement and ₹86.01 crore through internal accruals. The project remains on schedule, with physical completion targeted for March 2027, and commercial operations date (COD) scheduled for July 2027. The project is expected to support higher scale of operations through incremental capacity, product diversification, and backward-integration benefits. Timely completion and ramp-up of expanded capacities remain key monitorable.

Liquidity: Adequate
The company maintains an adequate liquidity position, supported by GCA of ₹130.26 crore in FY26, and ₹31 crore in Q1FY27, against projected GCA of ₹152 crore in FY27, and debt repayment obligations of ~₹42.6 crore. Free cash and bank balances stood at ~₹45 crore as on March 31, 2026. The liquidity position is further supported by a comfortable current ratio of 1.75x as on March 31, 2026, and positive cash flow from operations of ₹68.71 crore in FY26. The company's reliance on bank borrowings for working capital remains moderate, with average working capital limit utilisation remaining below 50% for 12 months ended June 30, 2026.

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 ~93 KL of water recycled daily.
Social	• The company undertakes corporate social responsibility (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 Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (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

SMS, listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE), is promoted by 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, 2025 (A)	March 31, 2026 (A)	Q1FY27 (Ab)
Total operating income	787.83	892.47	206.97
PBILDT*	145.07	176.51	41.90
Profit after tax (PAT)	68.38	87.61	21.13
Overall gearing (x)	0.46	0.46	NA
Interest coverage (x)	7.82	7.65	7.62

A: Audited; Ab: Abridged; Note: These are latest available financial results.
*PBILDT: Profit before interest, lease rentals, depreciation, and tax

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

For complexity level of instruments rated refer to Annexure-1.

Lender details: Annexure-4

Disclosure on facilities/instruments and name of regulators:
A list of facilities / instruments falling under the purview of financial sector regulators (FSRs) along with the names of respective FSRs has been duly disclosed by CareEdge Ratings on its website. A link to the same has been provided below for ready reference:

https://www.careratings.com/activities_and_regulators

Note: For facilities or instruments falling under the purview of FSRs other than Securities and Exchange Board of India (SEBI), the grievance / dispute redressal mechanisms and investor protection mechanisms provided by SEBI shall not be available.

Annexure-1: Details of instruments/facilities

Name of the Instrument	Name of the Regulator	Complexity Level	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	RBI	Simple	-		-	-	141.00	CARE A; Stable
Fund-based - LT-Packing Credit in Foreign Currency	RBI	Simple	-		-	-	80.00	CARE A; Stable
Fund-based - LT-Term Loan	RBI	Simple	-		-	30-09-2034	349.07	CARE A; Stable
Fund-based - ST-Standby Line of Credit	RBI	Simple	-		-	-	16.00	CARE A1
Non-fund-based - ST-Bank Guarantee	RBI	Simple	-		-	-	2.00	CARE A1
Non-fund-based - ST-Forward Contract	RBI	Simple	-		-	-	4.83	CARE A1
Non-fund-based - ST-Letter of credit	RBI	Simple	-		-	-	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 2026-2027	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
1	Fund-based - LT-Cash Credit	LT	141.00	CARE A; Stable	-	1)CARE A; Positive (04-Dec-25)	1)CARE A; Stable (10-Oct-24)	1)CARE A; Negative (07-Dec-23)
2	Non-fund-based - ST-Letter of credit	ST	30.00	CARE A1	-	1)CARE A1 (04-Dec-25)	1)CARE A2+ (10-Oct-24)	1)CARE A2+ (07-Dec-23)
3	Fund-based - LT-Term Loan	LT	349.07	CARE A; Stable	-	1)CARE A; Positive (04-Dec-25)	1)CARE A; Stable (10-Oct-24)	1)CARE A; Negative (07-Dec-23)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2026-2027	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
4	Fund-based - ST-Standby Line of Credit	ST	16.00	CARE A1	-	1)CARE A1 (04-Dec-25)	1)CARE A2+ (10-Oct-24)	1)CARE A2+ (07-Dec-23)
5	Fund-based - LT-Packing Credit in Foreign Currency	LT	80.00	CARE A; Stable	-	1)CARE A; Positive (04-Dec-25)	1)CARE A; Stable (10-Oct-24)	1)CARE A; Negative (07-Dec-23)
6	Non-fund-based - ST-Bank Guarantee	ST	2.00	CARE A1	-	1)CARE A1 (04-Dec-25)	1)CARE A2+ (10-Oct-24)	1)CARE A2+ (07-Dec-23)
7	Non-fund-based - ST-Forward Contract	ST	4.83	CARE A1	-	1)CARE A1 (04-Dec-25)	1)CARE A2+ (10-Oct-24)	1)CARE A2+ (07-Dec-23)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities- Not applicable

Annexure-4: 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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