SMS Lifesciences India Limited

September 28, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	19.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	30.00	CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable / A Two)	Reaffirmed
Short Term Bank Facilities	0.32	CARE A2 (A Two)	Reaffirmed
Total Facilities	49.32 (Rs. Forty-Nine Crore and Thirty-Two Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of SMS Lifesciences India Limited (SMS Life) continue to derive strength from experienced promoter group, steady growth in operating income albeit moderate profitability margins in FY22 (refers to the period April 01 to March 31), established presence in anti-ulcer segment, diversified and reputed client base, comfortable capital structure, satisfactory debt coverage indicatory and adequate liquidity position. The rating strengths are, however, tempered by low profitability margins, product concentration risk, presence in the highly fragmented and regulated bulk drug industry.

Rating Sensitivities:

Positive Factors- Factors that could lead to positive rating action/upgrade:

- ✓ Diversification in its product portfolio, wherein no single product contributes over 20% of total gross sales
- ✓ Improvement in profitability margins beyond 12-13% on a sustained basis with improvement in ROCE.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- ✓ Overall gearing of the company deteriorating above 1.00x.
- ✓ Elongation of working capital cycle to more than 100 days on a continuous basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with a strong track record in the pharmaceutical industry

SMS Life, originally promoted by Mr. P Ramesh Babu (Non-Executive Director) and Mr. TVVSN Murthy (Managing Director). Mr. P Ramesh Babu has over 30 years of experience in the pharmaceutical industry. He has worked for various reputed pharmaceutical companies as a Director (Overall Business Development & Supervision and Marketing). Earlier, he has been associated with Cheminor Drugs. SMS Life was a wholly owned subsidiary of SMS Pharma till its demerger with effect from May 17, 2017.

Established presence in Anti–ulcer (GAS) therapeutic segment

SMS Life, at standalone level, has a portfolio of more than 12 APIs with an established presence in GAS segment followed by Anti-erectile dysfunction (EDF) therapeutic segment. The top 10 products of the portfolio accounted for 92% in FY22 (80% in FY21).

Diversified and reputed client base with stable flow of repeat business

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

The company, on standalone basis, has diversified revenue with top 5 clients contributing 42.32% (48.70% in FY21) of the gross sales in FY22. These clients have long standing relation with an average age of 17 years of association with the group. Top five clients of the company during FY22 were, Mylan Laboratories Limited, Unique Pharmaceuticals Laboratories Limited, Ravico Pharmaceuticals, J B Chemicals & Pharmaceutical Ltd, Cadila Pharmaceuticals Limited and Sun Pharmaceutical Industries Limited which are globally well renowned innovator in pharma and research.

Growth in total operating income

The total operating income (TOI) of SMS Life, at consolidated level, achieved growth of 31.79% from Rs. 266.95 crore in FY21 to 351.81 crore in FY22 at the back of increase in exports of the company during the year.

During Q1FY23 (Consol.), company achieved a TOI of Rs. 82.58 crore (76.34 core during Q1FY22) with a PBILDT margin of 11.02% and PAT margin of 2.81%.

Continued comfortable capital structure and satisfactory debt coverage ratios

SMS Life (consol.) continues to have comfortable capital structure, with debt to equity and overall gearing below unity at 0.26x and 0.48x as on March 31, 2022 (0.40x and 0.58x as on March 31, 2021).

Debt risk metrics (term debt/GCA and total debt/GCA) have improved marginally in FY22 to 1.21x and 2.26x (against 1.97x and 2.87x in FY21) and Interest coverage parameters (PBILDT/interest and PBIT/interest) declined to 5.87x and 4.25x during FY22 (6.96x and 5.23x during FY21) on account of reduction in profitability and increase in interest cost.

Stable industry outlook

The Indian pharmaceutical industry (IPI) is ranked 3rd globally in terms of volume and 13th in terms of value. The industry size is estimated at about USD 42 billion in 2020 with domestic and export segment each holding a share of around 50% in industry's revenues. Growth in the domestic pharma market is expected to be driven by increase in the penetration of health insurance, improving access to healthcare facilities, rising prevalence of chronic diseases and rising per capita income. The export growth is expected to be led by increasing generic penetration in the regulated markets on the back of enhanced focus on the niche and complex product segments, patent expiries, medicine patent pool announcing licensing agreement with pharmaceutical companies and growing demand from semi-regulated pharma markets.

Key Rating Weaknesses

Moderate profitability margins

The PBILDT reduced from 11.81% during FY21 to 10.29% in FY22 due to increase in raw material costs and high logistics cost during the covid-19 crisis. Despite decline in the PBILDT margins, PAT margins (Consol.), improved by 211 bps from 5.08% during FY21 to 7.19% during FY22.

Product Concentration risk

Ranitidine Hcl (Anti –ulcer (GAS) therapeutic segment) is the main product of the portfolio with 35.04% of contribution to gross sales in FY22 resulting in single product concentration risk. Though, the company faces product concentration risk with respect to Ranitidine Hcl, SMS Life is one of the single largest manufacturers of Ranitidine and therefore enjoys a good market share with respect to the same.

Working Capital intensive operations

SMS Life operates in a working capital-intensive industry marked by high inventory level and the company has to maintain stock of raw materials on account of lead time associated with imports and fluctuation in prices of raw material. The company's average working capital utilization (Standalone) remained moderate at around 68.08% for the 12 months period ended August 2022.

Exposure to regulatory risk

The company is exposed to regulatory risk with its operations centered majorly into manufacturing pharmaceutical APIs. The pharmaceutical industry is highly regulated in many other countries and requires various approvals, licenses, registrations and permissions for business activities. The approval process for a new product registration is complex, lengthy and expensive. The time taken to obtain approval varies by country but generally takes from six months to several years from the date of application. Any delay or failure in getting approval for new product launch could adversely affect the business prospect of the company

Highly fragmented and competitive bulk drug industry

Indian pharmaceutical industry is highly fragmented with presence of more than thousands of players in APIs and formulations. It manufactures about 60,000 generic brands across 60 different therapeutic categories, about 1,500 bulk drugs and almost the entire range of formulations. The industry is highly fragmented with around 20,000 players, of which, around 250 in the organized sector primarily in formulations control over 70% of the total domestic market.

Foreign exchange fluctuation risk

SMS Life is exposed to foreign exchange fluctuation risk in view of large volume and high value transactions of export and import, a phenomenon common to the players in the industry. However, for SMS Life, the risk gets mitigated to certain extent due to natural hedging through netting off the imports and exports to a large extent.

Liquidity analysis – Adequate

The liquidity position of the company, at consolidated level, remain adequate considering unutilized working capital limits of about 40-50%. The average working capital utilization of the company is 68% for the past 12 months ending August 2022. The company (consol.) has generated GCA of Rs.35.18 crore during FY22 and has cash and bank balance of Rs.4.39 crore as on March 31, 2022. The company has met all its debt obligations in FY22. Considering the generated gross cash accruals in FY22, the company is expected to repay the term debt obligation for FY23 comfortably.

Analytical approach – Consolidated

Consolidated business and financial risk profiles of SMS Life and its subsidiaries namely Mahi Drugs Private Limited has been considered as this company is a subsidiary of SMS Life which operate in the same line of business and have financial and operational linkages. Further SMS Life has extended corporate guarantee to Mahi Drugs Pvt Ltd.

Applicable Criteria

Policy on default recognition
Consolidation
Financial Ratios - Financial Sector
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

SMS Lifesciences India Limited (SMS Life) was originally incorporated in May 2006 by Mr Hari Kishore Potluri, Ms Potluri Hima Bindu and their family members as private limited company in the name of Potluri Real Estate Private Limited and subsequently changed its name to Potluri Packaging Industries Private Limited on November 6, 2013. Thereafter, the company has changed its name to SMS Lifesciences India Limited in August 4, 2014. SMS Life was a Wholly-Owned Subsidiary (WOS) of SMS Pharmaceuticals Limited (SMS) till May 17, 2017. Pursuant to the scheme of Arrangement approved by 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 from 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) (i.e., Unit I-Kazipally unit (erstwhile unit I of SMS) Unit II-Jeedimetla unit (erstwhile unit IV of SMS) and Unit III-Bollaram unit (erstwhile unit V of SMS) and one R&D facility along with other assets, liabilities and investments and transferred to SMS Life. The company primarily caters to semi-regulated markets across India, Europe, Asia and has product base of more than 12 products under various therapeutic segments.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	Q1FY23 (P)
Total operating income	266.52	351.81	82.58
PBILDT	31.10	36.22	9.10
PAT	13.56	25.30	2.32
Overall gearing (times)	0.58	0.48	NA
Interest coverage (times)	6.87	5.87	5.55

A: Audited, P -Published, NA- Not Available

Status of non-cooperation with previous CRA: NA

Any other information: NA

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 for this company: Annexure 4

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 along with Rating Outlook
Non-fund-based - ST-BG/LC		-	-	-	0.32	CARE A2
Fund-based - LT/ ST-Packing Credit in Foreign Currency		-	-	-	30.00	CARE BBB+; Stable / CARE A2
Fund-based - LT-Term Loan		-	-	30/05/2026	19.00	CARE BBB+; Stable

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (02-Mar-21) 2)CARE BBB+ (CWD) (20-Apr-20)	1)CARE BBB+; Stable (11-Feb-20) 2)CARE BBB+ (CWD) (07-Oct-19)
2	Non-fund-based - ST-BG/LC	ST	0.32	CARE A2	-	1)CARE A2 (07-Jul-21)	1)CARE A2 (02-Mar-21) 2)CARE A2 (CWD) (20-Apr-20)	1)CARE A2 (11-Feb-20) 2)CARE A2 (CWD) (07-Oct-19)
3	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST*	30.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (07-Jul-21)	1)CARE BBB+; Stable / CARE A2 (02-Mar-21) 2)CARE BBB+ / CARE A2 (CWD) (20-Apr-20)	1)CARE BBB+; Stable / CARE A2 (11-Feb-20) 2)CARE BBB+ / CARE A2 (CWD) (07-Oct-19)
4	Fund-based - LT-Term Loan	LT	19.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (07-Jul-21)	1)CARE BBB+; Stable (02-Mar-21)	1)CARE BBB+; Stable (11-Feb-20)

							2)CARE BBB+ (CWD) (20-Apr-20)	2)CARE BBB+ (CWD) (07-Oct-19)
5	Non-fund-based - LT/ ST-Loan Equivalent Risk	LT/ST*	-	-	-	-	-	1)Withdrawn (11-Feb-20) 2)CARE BBB+ / CARE A2 (CWD) (07-Oct-19)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of 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: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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