

NOVEMBER 22, 2016

CARE ASSIGNS 'CARE BB' AND 'CARE A4' RATINGS TO THE BANK FACILITIES OF SMRUTHI ORGANICS LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities (Term Loan)	12.77*	CARE BB [Double B]	Assigned
Long-term Bank Facilities (Fund based)	24.00	CARE BB [Double B]	Assigned
Short-term Bank Facilities (Non Fund based)	10.00	CARE A4 [A Four]	Assigned
Total Facilities	46.77 (Rs. Forty Six Crore and Seventy seven lakhs Only)		

*includes term loan outstanding as on Sep 30, 2016

Rating Rationale

The ratings assigned to the bank facilities of Smruthi Organics Ltd (SOL) is constrained by its relatively small scale of operations in the APIs (Active Pharmaceutical Ingredients)/ Bulk Drugs Industry along with limited product offerings, client concentration risk and working capital intensive nature of operations. The ratings also factor in SOL's low profitability margins, elongated operating cycle, its susceptibility to foreign exchange fluctuation and volatile raw material prices, and prevailing intense competition in the API/Bulk drugs industry.

The ratings are, however, underpinned by the extensive experience of the promoters and long track record of the company in the pharmaceutical industry, accredited manufacturing facilities, coupled with having a reputed and well-established clientele portfolio, order-based nature of business and moderate gearing levels.

Going forward, the ability of the company to, scale up its operations, improve its profitability margins and capital structure through effective management of operating cycle constitute the key rating sensitivities.

Background

Incorporated in 1989, Smruthi Organics Limited (SOL), promoted by the Eaga family is a public limited company engaged mainly in manufacturing of APIs (Active Pharmaceutical Ingredients)/ Bulk Drugs. The company manufactures APIs/Bulk Drugs with an installed capacity of 5,800 MTPA as on March 31, 2016. SOL caters mainly to the anti-diabetic segment for treatment of Type 2 Diabetes and other segments to treat bacterial infections. SOL derives majority of its revenues from the anti-diabetic segment i.e. around 39% of revenues in FY16 as compared to 38% of revenues in FY15. Further, the company derived around 55% of its overall revenues from the anti-diabetic segment in Q1FY17.

The company has two manufacturing facilities comprising of Unit I and Unit II as well as an in-house R&D centre at Solapur, Maharashtra. Unit I primarily manufacturing intermediates with a single manufacturing block. Unit II is used for APIs and intermediates and is segregated into 6 manufacturing blocks and 1 scale-up facility. The API manufacturing plant at Unit II is GMP (Good Manufacturing Practices) certified. The R&D unit is approved by DSIR (Department of Scientific & Industrial Research, Delhi Govt. of India). The company is pre-dominantly a domestic player with domestic sales accounting for nearly 73.58% of net sales in FY15 and 67.24% of net sales in FY16 respectively.

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

As per FY16 (refers to the period April 01 to March 31), SOL posted a PAT of Rs.1.22 crore on a total income of Rs.72.93 crore as compared to loss of Rs.3.81 crore on a total income of Rs.74.97 crore in FY15. Further, as per Q1FY17, the company reported PAT of Rs.0.27 crore on a total income of Rs.19.60 crore as compared to loss of 0.15 crore on a total income of Rs.16.93 crore in Q1FY16.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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