Smruthi Organics Limited

September 14, 2020

Ratings

Facilities*	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term bank facilities	34.00	CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable; ISSUER NOT COOPERATING*)	Issuer not cooperating; Revised from CARE BB+; Positive (Double B Plus; Outlook: Positive) on the basis of best available information
Short-term bank facilities	17.00	CARE A4+; ISSUER NOT COOPERATING* (A Four Plus; ISSUER NOT COOPERATING*)	Issuer not cooperating; Based on best available information
Total Facilities	51.00 (Rs. Fifty one crore only)		

**Details of instruments/facilities in Annexure-1*

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Smruthi Organics Limited (SOL) to monitor the rating(s) vide e-mail communications dated June 23, 2020, July 25, 2020, August 13, 2020, letter dated August 20, 2020 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Further, SOL has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on Smruthi Organics Limited's bank facilities will now be denoted as **CARE BB+; Stable; ISSUER NOT COOPERATING /CARE A4; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The outlook assigned to the rating has been revised from 'Positive' to 'Stable' on account of non-availability of requisite operational information and management interaction and hence is based on best available or limited information on the company.

The ratings continue to remain constrained owing to moderate capacity utilization of its plants, small scale of operations (although improved) and working capital intensive nature of operations. The ratings also factor product and client concentration risks as well as susceptibility to foreign exchange fluctuation risk/raw material prices thereby limiting profitability. Furthermore, the rating factors inherent risk associated with API/bulk drug industry including dependence on imports from China for major raw material, intense competition and regulatory risk. The ratings, however, derive comfort from extensive experience of the promoters and long track record of the company in the pharmaceutical industry, improvement in profit margins, capital structure and debt coverage indicators as well as accredited manufacturing facilities.

Detailed description of the key rating drivers

At the time of last rating on June 28, 2019 the following were the rating strengths and weaknesses (updated for the information available from Annual report for FY20 (refers to the period April to March) and Q1FY21 (refers to the period April to June) results from Stock exchange filings):

Key Rating Weakness

Product concentration risk

The Company's major products are Metformin followed by Diloxanide Furoate, Amlodipine, Telmisartan amongst others. In FY19 (refers to the period April 1 to March 31), the top five drugs contributed around 88% of total sales resulting in product concentration risk.

Customer concentration risk

Although the customer concentration risk reduced in FY19 as reflected in top 10 customers contributing 59% of total sales in FY19 as against 71% in FY18, the same continues to be relatively higher.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

**Issuer did not cooperate; Based on best available information*

Order based nature of business

Being an API player, the company's business is mainly order driven (spot sales) with no long term arrangements with its customers, thus, leading to lack of revenue visibility over medium term for the company.

Inherent risks for pharmaceutical industry along with forex fluctuation risk

The dependence on China for supply of major raw materials by API/bulk drug manufacturers, and highly regulated nature of pharmaceutical industry are inherent risks for SOL. 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.

Working capital intensive nature of operations

The operations of the company are working capital intensive owing to the nature of the business. However, the operating cycle improved to 65 days in FY20 from 71 days in FY19.

Key Rating Strength

Improvement in scale of operations owing to growth in volumes

In FY19, the net sales increased to Rs.138.29 crore from Rs.98 crore in FY18 registering a growth of 42% on a y-o-y basis. The increase in sales was majorly contributed by improved demand on account of increased market penetration. In FY19, sale volumes increased by 38% majorly attributed by increased demand for Metformin. Moreover, sales realization of Metformin (accounting for 44% of sales in FY19) improved by 16%. However, during FY20, the net sales decreased to Rs.135.50 crore from Rs.138.29 crore in FY19 registering de-growth of 2.01% on a y-o-y basis mainly due to COVID-19 outbreak which hampered imports of raw materials as well as sales of the company during last financial quarter of FY20. During Q1FY21 the company registered de-growth in TOI of 2.70% vis-à-vis Q4FY20 and 9.64% vis-à-vis Q1FY20.

Improvement in profitability level

In FY20, the company's EBIDTA margin increased to 14.51% form 12.63% during previous year. This is mainly on account of lower cost of material consumed, which stood around 57.62% of TOI during FY20 against 67.49% during FY19. Following the same the PAT margin also improved to 6.19% in FY20 from 5.29% in FY19. Also, during Q1 FY21 the PBILDT margin and PAT margin both improved to 19.38% and 10.15% respectively.

Experienced promoters in the bulk drug manufacturing industry

SOL is managed/ promoted by Mr. Purushotham Ega and Mr. Ega Swapnil, having more than 30 years and 15 years respectively in pharmaceutical industry. SOL's operating track record is of more than two and a half decades in the pharmaceutical business with presence in the area of manufacturing of bulk drugs and APIs.

Accredited manufacturing units

The company has two manufacturing units located at Solapur in Maharashtra. The facilities are spread over an area of 22.50 acres with total annual capacity of around 4,548 MT, thus capable of handling large volumes. The Unit II plant is Good Manufacturing Practice (GMP) certified. The company's research and development department is recognized by the Directorate of Scientific and Industrial Research (DSIR), Government of India.

Moderate gearing levels and debt coverage indicators

The company's borrowings mainly comprise of working capital borrowings and unsecured loans from the promoters. The company's overall gearing levels improved to 0.38x (without LC acceptances) as on March 31, 2020 from 1.01x (including LC acceptances) as on March 31, 2019. The company's interest servicing ability remains comfortable as indicated by interest coverage ratio of 6.18x in FY20 compared to 4.88x in FY19.

Moderate liquidity position

The Company does not have any term loan as on March 31, 2020. The liquidity is marked by moderate utilization of working capital limits around 45% to 50% and current ratio of 1.39. The company did not avail any loan moratorium facility offered by RBI under COVID relief program during March to August 2020.

Impact of COVID-19 on business and operations

The nationwide lockdown in March 2020 and Q1FY21 impacted the sales of the company as there were disruptions in raw material supply and shipping/logistics also. The company experienced 2 weeks of total production loss. However, commercialization of certain API molecules developed by the company's R&D was postponed from FY20 due to supply chain disruptions because of COVID -19 and is proposed to be commercialized in FY20-21. Also, the company's plans to enter the branded generics marketing space had to be postponed due to COVID-19 and the resulting lockdown.

Analytical approach: Standalone

Applicable Criteria
Policy in respect of Non- cooperation by issuer
Criteria on assigning 'outlook'and 'credit watch'to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Rating Methodology –Pharmaceutical Sector
Financial ratios –Non-Financial Sector

About the Company
SOL established in 1989 by Mr. Ega Purushotham (Managing Director) and is headquartered at Solapur, Maharashtra. As on May 31, 2019, the promoter group held 63.83% equity stake in the company. Mr. Ega Purushotham along with Mr. Ega Swapnil (son of Mr. Ega Purushotham) manages the overall operations of the company.
The company is engaged in the business of manufacturing and marketing active pharmaceutical ingredients (APIs) and intermediates. The product portfolio of the company consists of more than 12 APIs and intermediates including Metformin, Diloxanide Furoate, Norfloxacin, Telmisartan, Amlodipine, Potassium Losartan amongst others.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	Q1 FY21 (UA)
Total operating income	138.29	135.50	29.38
PBILDT	17.47	19.66	5.69
PAT	7.32	8.39	4.16
Overall gearing (times)	0.77	0.38	-
Interest coverage (times)	4.88	6.18	13.18

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	34.00	CARE BB+; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC	-	-	-	17.00	CARE A4+; ISSUER NOT COOPERATING*

**Issuer did not cooperate; based on best available information*

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (28-Jun-19)	1)CARE BB; Stable (04-Sep-18)	1)CARE BB; Stable (10-Aug-17)
2.	Fund-based - LT-Cash Credit	LT	34.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Positive (28-Jun-19)	1)CARE BB; Stable (04-Sep-18)	1)CARE BB; Stable (10-Aug-17)
3.	Non-fund-based - ST-BG/LC	ST	17.00	CARE A4+; ISSUER NOT COOPERATING*	-	1)CARE A4+ (28-Jun-19)	1)CARE A4 (04-Sep-18)	1)CARE A4 (10-Aug-17)

**Issuer did not cooperate; based on best available information*

Annexure 3: Covenants of rated instrument / facility: NA

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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