No. CARE/HRO/RR/2021-22/1037

Shri TVVSN Murthy
Managing Director
SMS Lifesciences India Limited
Plot No.19-111,Road No.71
Opp,Bhartiya Vidya Bhavan Pubilc School
Hyderabad
Telangana 500096

July 05, 2021

Dear Sir,

Credit ratings for the Bank Facilities of Rs. 49.32 crore

Please refer to our letter dated July 01, 2021 on the above subject.

1. The rationale for the rating is attached.
2. We request you to peruse the annexed document and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by July 06, 2021, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,

D. Naveen

(D Naveen Kumar)
Associate Director

Rating rationale
SMS Lifesciences India Limited

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	19.00 (Reduced from 19.25)	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 Bank 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 ratings assigned to the bank facilities of SMS Lifesciences India Limited (SMS Life) are reaffirmed on account of stable scale of operations in FY21 (Prov.) (refers to the period April 01 to March 31), improvement in the profitability margins, continued comfortable capital structure, satisfactory debt coverage ratios, comfortable working capital cycle, experienced promoters and directors with a strong established track record in the pharmaceutical industry, well-equipped manufacturing facilities with regulatory approvals to cater to the semi-regulated and domestic market, established presence in anti-ulcer segment, diversified and reputed client base and synergy derived from SMS group. The rating strengths are, however, tempered by product concentration risk, presence in the highly fragmented and competitive bulk drug industry along with exposure to regulatory and foreign exchange fluctuation risk.

Rating Sensitivities

Positive Factors

- Diversification in its product portfolio, wherein no single product contributes over 20% of total gross sales.
- Improvement in PBILDT up to 12% on a sustained basis.

Negative Factors

- Overall gearing of the company going above 1.00x.
- Elongation of working capital cycle to more than 90 days on a continuous basis.

Detailed description of the key rating drivers

Experienced promoters and directors with a strong track record in the pharmaceutical industry

SMS Life, originally promoted 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 and to SMS Lifesciences India Private Limited in August 4, 2014. Post demerger, SMS Life is a separate entity operating independently in semi-regulated markets. The current promoters of SMS Life are Mr. P Ramesh Babu (Chairman and Managing Director of SMS) 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.

Synergy derived from SMS group

SMS Life is part of SMS group. The company was demerged on May 17, 2017 with effect from April 01, 2016. The semi-regulated units of SMS Pharma were transferred to SMS Life along with its assets and liabilities. SMS Life derives benefit as being part of the SMS group. SMS Pharma promoters have experience of around 3 decades and are involved in day-to-day affairs of the company. SMS Life is able to cater to clients which have long term relation with SMS group resulting strong customer base for SMS Life.

Manufacturing facility with various regulatory certifications for domestic and semi-regulated markets

SMS Life has three manufacturing units namely, Unit I – (Kazipally unit), Unit II – (Jeedimetla unit) and Unit III – (Bollaram unit) in Hyderabad and one R&D facility. During FY17, SMS Life completed Korean Food and Drug Administration (KFDA) audit for Unit-I. Further, the Company has successfully completed USFDA audit during April, 2018 and received EIR report against Kazipally Facility (Unit I). All three units also meet World Health Organization (WHO) cGMP standards. Apart from that, the company's subsidiary i.e. Mahi Drugs Private Limited has one manufacturing facility located in J. N. Pharma City, Parawada, Visakhapatnam. Furthermore, the R&D facility of the company has received recognition from Department of Scientific and Industrial Research (DSIR) in January 2021.

Established presence in Anti–ulcer (GAS) therapeutic segment albeit high product concentration

SMS Life, at standalone level, has a portfolio of more than 12 APIs with an established presence in Anti-ulcer (GAS) segment followed by Anti-erectile dysfunction (EDF) therapeutic segment. The top 10 products of the portfolio accounted for 80% in FY21 (76% in FY20). Ranitidine Hcl (Anti –ulcer (GAS) therapeutic segment) is the main product of the portfolio with 24.43% of contribution to gross sales in FY21 (33.57% in FY20) 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. Apart from this, the concentration of revenue from Ranitidine is steadily going down on account of new products introduced by the company.

Diversified and reputed client base

The company, on standalone basis, has diversified revenue with top 5 clients contributing 48.70% of the gross sales in FY21 (38.18% in FY20) increasing the customer concentration risk. 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 FY21 were, Sun Pharmaceutical Industries Ltd, J B Chemicals & Pharmaceutical Ltd, Suzhou Home Sun Pharmaceutical Co Ltd, Unique Pharmaceuticals Laboratories

Limited, Ravico Pharmaceuticals, Mylan Laboratories Limited etc. The clients of SMS Life are globally well renowned innovator in pharma and research.

Stable operating income and improvement in the profitability margins in FY21

The total operating income (TOI) of SMS Life, at consolidated level, remained stable at Rs.266.95 crore in FY21 (Prov.) (Rs.262.34 crore in FY20), The company has started focusing on manufacturing and selling of other new molecules developed by its own R&D along with few contract manufacturing cooperation's to increase the revenues as well as margins. In addition to this the company is also evaluating import substitution products and opportunities arising out of COVID-19. Furthermore, out of the revenue earned at consolidated level during FY21, Mahi Drugs Private Limited (MDPL) constitute to around 6.62% only as MDPL act as a backward integration unit for SMS life.

However, the PBILDT margin (consol.) has improved by 152 bps from 10.29% in FY20 to 11.68% in FY21 (Prov.) on account of better margins earned from new products launched during the year. The PAT margin (Consol.), improved by 120 bps from 3.88% during FY20 to 5.08% during FY21 (Prov.) on account of lower absorption of depreciation and interest charges.

Furthermore, the company has introduced various new products in FY21 which cater to therapeutic segments such as anticonvulsant, treatment of influenza, anti-inflammation, anesthesia, antiretroviral, etc. with these new products the company is expecting to reduce its product concentration and improve its margins.

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 0.40x and 0.58x as on March 31, 2021 (Prov.) (0.44x and 0.66x as on March 31, 2020). The total debt includes term loans, working capital borrowings, LC backed creditors and unsecured loans from directors. Further, the PBILDT interest coverage and Total debt/GCA both improved during the year on account of higher profitability levels. The PBILDT interest coverage and Total debt/GCA improved to 6.96x and 2.87x during FY21 (Prov.) (5.25x and 3.44x during FY20) respectively.

Comfortable working capital cycle o

The operating cycle of the company, at consol. level, remained at 45 days in FY21 (Prov.) (41 days in FY20). The average creditor period of the company improved to 89 days in FY21 (Prov.) (112 days in FY20). The average inventory period of the company improved to 99 days in FY21 (Prov.) (113 days in FY20). 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 average collection period of the company improved to 35 days in FY21 (Prov.) (40 days in FY19). The company generally extends 30 to 45 days credit period to its customers. The company’s average working capital utilization (Standalone) remained moderate at around 55.01% for the 12 months period ended May 2021.

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.

Exposure to regulatory and foreign exchange fluctuation 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. Given, India's significant share in the USA's generic market, the USFDA has increased its scrutiny of manufacturing facilities and other regulatory compliance of the Indian pharma companies supplying generics drugs to the USA. Non-compliance may result in regulatory ban on products/facilities (as in the recent cases of import alerts issued by the USFDA to top pharma companies) and may impact a company's future approvals from USFDA. Hence, ongoing regulatory compliance has become critical for Indian pharma companies however, for SMS Life risk pertaining to regulatory compliance of USFDA is limited as the company's major share of revenue is from semi regulated markets.

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: 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 55% for the past 12 months ending May 2021. The company (consol.) has generated GCA of Rs.22.55 crore during FY21 (Prov.) and has cash and bank balance of Rs.2.16 crore as on March 31, 2021(Prov.). The company has met all its debt obligations in FY21. Considering the generated gross cash accruals in FY22, the company is expected to repay the term debt obligation to the extent of approximately Rs. 5.29 crore for FY22 comfortably.

Analytical approach: Consolidated; the 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

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short term Instruments
Rating Methodology - Consolidation
Rating Methodology – Manufacturing Companies
Rating Methodology – Pharmaceutical

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[Financial ratios – Non-Financial Sector]
[Liquidity Analysis – Non-Financial Sector]

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.

Financial Performance: Consolidated (Rs. crore)

For the period ended / as at March 31,	2019 (12m, A)	2020 (12m, A)	2021 (12m, UA)
Working Results			
Total Operating Income	380.03	262.34	266.95
PBILDT	37.02	26.99	31.53
Interest	5.51	5.14	4.53
Depreciation	6.38	7.86	7.86
PBT	25.47	14.62	19.96
PAT (after deferred tax)	17.85	10.18	13.56
Gross Cash Accruals	25.15	18.83	22.55
Financial Position			
Equity Capital	3.02	3.02	3.02
Net worth	89.34	98.60	112.12
Total capital employed	162.48	190.04	204.73
Key Ratios			
Growth			
Growth in Total income (%)	76.37	-30.97	1.76
Growth in PAT (after deferred tax) (%)	174.52	-42.94	33.13
Profitability			
PBILDT/Total Op. income (%)	9.74	10.29	11.81
PAT (after deferred tax)/ Total income (%)	4.70	3.88	5.08
ROCE (%)	21.63	11.06	12.14
Solvency			
Debt Equity ratio (times)	0.38	0.44	0.40
Overall gearing ratio(times)	0.62	0.66	0.58
Interest coverage(times)	6.72	5.25	6.96
Term debt/Gross cash accruals (years)	1.36	2.32	1.97
Total debt/Gross cash accruals (years)	2.21	3.44	2.87
Liquidity			
Current ratio (times)	1.13	1.16	1.11

For the period ended / as at March 31,	2019	2020	2021
	(12m, A)	(12m, A)	(12m, UA)
Quick ratio (times)	0.51	0.45	0.56
Turnover			
Average collection period (days)	30	40	35
Average inventory (days)	70	113	99
Average creditors (days)	75	112	89
Operating cycle (days)	25	41	45

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Details of rated facilities: Please refer Annexure-3

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

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-5*

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
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	-	-	-	19.00	CARE BBB+; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
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)	1)CARE BBB+; Stable (31-Oct-18) 2)CARE BBB+; Stable (03-Oct-18)
2.	Non-fund-based - ST-BG/LC	ST	0.32	CARE A2	-	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)	1)CARE A2 (31-Oct-18) 2)CARE A2 (03-Oct-18)
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 (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)	1)CARE BBB+; Stable / CARE A2 (31-Oct-18) 2)CARE BBB+;

								Stable / CARE A2 (03-Oct-18)
4.	Fund-based - LT-Term Loan	LT	19.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (02-Mar-21) 2)CARE BBB+ (CWD) (20-Apr-20)	1)CARE BBB+; Stable (11-Feb-20) 2)CARE BBB+ (CWD) (07-Oct-19)	1)CARE BBB+; Stable (31-Oct-18) 2)CARE BBB+; Stable (03-Oct-18)
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)	1)CARE BBB+; Stable / CARE A2 (31-Oct-18) 2)CARE BBB+; Stable / CARE A2 (03-Oct-18)

Annexure 3: Details of all Bank Facilities

1. Long Term Facilities

1.A. Term Loans

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms	Remarks
1.	Export Import Bank of India	19.00	Outstanding as on April 30, 2021	20 quarterly instalments from July 2021
	Total	**19.00**		

Total Long Term Facilities : Rs.19.00 crore

2. Short Term Facilities

2.A. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	RBL Bank Limited	0.32	Letter of Credit
	Total	**0.32**	

Total Short Term Facilities : Rs.0.32 crore

3. Long Term / Short Term Facilities

3.A. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Remarks
1.	RBL Bank Limited	30.00	PCFC
	Total	**30.00**	

Total Long Term / Short Term Facilities : Rs.30.00 crore

Total Facilities (1.A+2.A+3.A) : Rs.49.32 crore

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

Sr. No.	Name of the 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: Detailed explanation of covenants of the rated instrument / facilities - NA

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

Contact us

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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.