SMS Lifesciences India Limited

Registered & Corporate Office :
Plot No. 19-III, Road No. 71,
Opp. Bharatiya Vidya Bhavan Public School,
Jubilee Hills, Hyderabad - 500 096, Telangana, INDIA.
Tel : +91-040-6628 8888, Fax : +91-40-2355 1401
CIN : L74930TG2006PLC050223
Email : info@smslife.in, Website : www.smslife.in

August 18, 2023

To

BSE Limited,
Listing Department, P J Towers,
Dalal Street,
Mumbai – 400 001.
<u>Scrip code</u>: 540679

Through: BSE Listing Center

National Stock Exchange of India Limited,
Listing Department, "Exchange Plaza",
Bandra-Kurla Complex, Bandra (E),
Mumbai - 400 051.
<u>Trading Symbol</u>: SMSLIFE

Through: NEAPS Portal

SUB: DISCLOSURE OF CREDIT RATING.

Ref: Regulation 30(6) read with sub-para 3 of Para "A" of Part "A" of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and SEBI Circular No, SEBI/HO/CFD/CFD-PoD-1/P/CIR/2023/123 dated July 13, 2023.

Dear Sir/Madam,

With reference to the above-cited subject, this is to inform you that **CARE Ratings Limited** (CARE), Credit Rating Agency, has downgraded the credit ratings assigned to the Bank facilities of the Company. <u>Copy of rating issued by "CARE" is annexed herewith.</u>

Reason for downgrade in ratings	Due to decline in profitability of the Company in the quarter ended March 31, 2023 and June 30, 2023. However, Company has requested the agency to revisit the aforesaid ratings. **(any revision in the ratings shall be adequately reported to the exchanges)**

Kindly take note of the same and suitably disseminate to all concerned.

For SMS Lifesciences India Limited

Trupti Ranjan Mohanty
Company Secretary

SMS Lifesciences India Limited
Hyderabad

Please note that this information is submitted to Stock Exchange(s) as per the timeline prescribed under SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2023.

Trupti Ranjan Mohanty

Digitally signed by Trupti Ranjan Mohanty
DN: c=IN, st=Telangana, 2.5.4.20=a0ae94b1e3bb64e6f16137ab5094cc9607b7491cc02a7dec909622271bff5767, postalCode=500034, street=Khairatabad , Hyderabad,Khairatabad,Telangana-500034, pseudonym=3594225a72bd5ba192622a779a558c03, serialNumber=adf4c8f13ba9eec8ad5a0482a256b31958bd1b0e4f0ca2e6b8ec020c8515fbf7, o=Personal, cn=Trupti Ranjan Mohanty
Date: 2023.08.18 18:56:00 +05'30'

CareEdge RATINGS

No. CARE/HRO/RL/2023-24/1232

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

August 17, 2023

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your Company for FY2023, Q1FY24, and the possible impact of the same on the credit profile of your company, our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	19.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Long Term / Short Term Bank Facilities	30.00	CARE BBB; Stable / CARE A3+ (Triple B ; Outlook: Stable / A Three Plus)	Revised from CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable / A Two)
Short Term Bank Facilities	0.32	CARE A3+ (A Three Plus)	Revised from CARE A2 (A Two)
Total Facilities	49.32 (Rs. Forty-Nine Crore and Thirty-Two Lakhs Only)		

2. Refer **Annexure 1** for details of rated facilities.

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

3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure 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 August 17, 2023, we will proceed on the basis that you have no any comments to offer.

4. CARE Ratings Ltd. reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

5. CARE Ratings Ltd. reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE Ratings Ltd. warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE Ratings Ltd. so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE Ratings Ltd. shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE Ratings Ltd. shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

6. Our ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.

7. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

8. Users of this rating may kindly refer our website www.careedge.in for latest update on the outstanding rating.

9. CARE Ratings Ltd. ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

Sriram Gurujala Goud
Analyst
sriram.goud@careedge.in

Niraj Thorat
Assistant Director
niraj.thorat@careedge.in

Encl.: As above

Annexure 1

Details of Rated 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	15.00	24 quarterly instalments from February 2020	O/s as on May 2022
2.	RBL Bank Limited	3.00	36 monthly instalments from February 2022	GECL - O/s as on May 2022
3.	HDFC Bank Ltd.	1.00	-	O/s as on May 2022
	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)	Debt Repayment Terms	Remarks
1.	RBL Bank Limited	0.32	-	LC/BG
	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)	Debt Repayment Terms	Remarks
1.	RBL Bank Limited	30.00	-	Packing Credit in Foreign Currency
	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-2
Draft Press Release
SMS Lifesciences India Limited

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-Term Bank Facilities	19.00	CARE BBB; Stable	Revised from CARE BBB+; Stable
Long-Term/Short-Term Bank Facilities	30.00	CARE BBB; Stable / CARE A3+	Revised from CARE BBB+; Stable / CARE A2
Short-Term Bank Facilities	0.32	CARE A3+	Revised from CARE A2

Details of instruments/facilities are in Annexure-1.

Rationale and key rating drivers

The rating revision to the bank facilities of SMS Lifesciences India Limited (SMS Life) continues to derive strength from an experienced promoter group, established presence in the 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 steady growth in losses reported in Q1FY2024, declining operating income and low profitability margins in FY23 (refers to the period April 01 to March 31), product concentration risk, and presence in the highly fragmented and regulated bulk drug industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- ✓ 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

- × Overall gearing of the company deteriorating above 1.00x.
- × Elongation of the working capital cycle to more than 100 days continuously.

Analytical approach: Consolidated

Consolidated business and financial risk profiles of SMS Life and its subsidiaries namely Mahi Drugs Private Limited have 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 a corporate guarantee to Mahi Drugs Pvt Ltd

Outlook: Stable

CARE ratings believe that SMS Lifesciences India Limited and the group would maintain a stable business profile backed by its track record of operations and associations with a reputed client base.

Detailed description of the key rating drivers:

Key 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 a standalone level, has a portfolio of more than 12 APIs with an established presence in the GAS segment followed by the 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 a stable flow of repeat business: The company, on a standalone basis, has diversified revenue with the top 5 clients contributing 42.32% (48.70% in FY21) of the gross sales in FY22. These clients have long-standing relationships with an average age of 17 years of association with the group. The top five clients of the company

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

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 innovators in pharma and research.

Continued comfortable capital structure albeit moderate debt coverage ratios: SMS Life (consol.) continues to have a comfortable capital structure, with overall gearing below unity at 0.60x as on March 31, 2023 (0.48x as on March 31, 2021). The Debt risk metrics (term debt/GCA and total debt/GCA) have deteriorated in FY23 to 3.09x and 4.70x (against 1.21x and 2.26x in FY22) and the Interest coverage ratio PBILDT/interest declined to 4.68x during FY23 (5.87x during FY22) 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. Growth in the domestic pharma market is expected to be driven by an 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 agreements with pharmaceutical companies and growing demand from semi-regulated pharma markets

Key weaknesses

A steady decline in TOI and losses reported during Q1FY2024: The company has reported a TOI of Rs.318.63 crore (Consol.) during FY23 as compared to a TOI of Rs.351.81 crore. The TOI declined by 9.43% compared to FY22. Whereas the company had projected a TOI of Rs.394 crore for FY23. However, the company only achieved Rs.318.63 crore which is about ~19.63% lower than the projected TOI. Simultaneously, the company has seen a decline in the topline for the last two quarters. In Q1FY24, the company reported a TOI of Rs.74.63 crore as against Rs.82.28 crore during Q1FY23. SMS Lifesciences India Limited reported a net loss of Rs.3.84 crore for Q1FY24 as compared to Rs.3.01 crore net profit during Q1FY23 and Rs.2.12 crore net profit during Q4FY23.

Low profitability margins: The PBILDT reduced from 10.30% during FY22 to 9.98% in FY23 due to an increase in finished product prices. Similarly, the PAT margins (Consol.), also declined by 362 bps from 7.19% during FY22 to 3.57% during FY23. During Q1FY24, the PBILDT margins further dropped to 4.17%.

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 a single product concentration risk. Though the company faces product concentration risk concerning Ranitidine Hcl, SMS Life is one of the single largest manufacturers of Ranitidine and therefore enjoys a good market share concerning the same

Working Capital-intensive operations: SMS Life operates in a working capital-intensive industry marked by a 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 65% for the 12 months ended May 2023.

Presence in the highly fragmented and regulated bulk drug industry: The company is exposed to regulatory risk with its operations centred majorly on 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 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 a new product launch could adversely affect the business prospect of the company

Liquidity: Adequate

The liquidity position of the company, at the consolidated level, remains adequate considering unutilized working capital limits of about 30-40%. The average working capital utilization of the company is 65% for the past 12 months ending May 2023. The company (consol.) has generated a GCA of Rs.22.16 crore during FY23 as on March 31, 2023. The company has met all its debt obligations in FY23.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non-financial Sector

Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Pharmaceutical
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

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 a 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 changed its name to SMS Lifesciences India Limited on August 4, 2014. SMS Life was a Wholly Owned Subsidiary (WOS) of SMS Pharmaceuticals Limited (SMS) till May 17, 2017. Under the scheme of Arrangement approved by the 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 on 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, and Asia and has a product base of more than 12 products under various therapeutic segments.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (UA)
Total operating income	261.40	346.65	318.12
PBILDT	30.88	32.39	29.28
PAT	13.17	25.38	13.22
Overall gearing (times)	0.36	0.41	0.52
Interest coverage (times)	6.86	7.00	5.75

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer to 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	30/05/2026	19.00	CARE BBB; Stable

Fund-based - LT/ ST-Packing Credit in Foreign Currency		-	-	-	30.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-BG/LC		-	-	-	0.32	CARE A3+

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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (02-Mar-21) 2)CARE BBB+ (CW with Developing Implications) (20-Apr-20)
2	Non-fund-based - ST-BG/LC	ST	0.32	CARE A3+	-	1)CARE A2 (28-Sep-22)	1)CARE A2 (07-Jul-21)	1)CARE A2 (02-Mar-21) 2)CARE A2 (CW with Developing Implications) (20-Apr-20)
3	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST*	30.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A2 (28-Sep-22)	1)CARE BBB+; Stable / CARE A2 (07-Jul-21)	1)CARE BBB+; Stable / CARE A2 (02-Mar-21) 2)CARE BBB+ / CARE A2 (CW with Developing Implications) (20-Apr-20)
4	Fund-based - LT-Term Loan	LT	19.00	CARE BBB; Stable	-	1)CARE BBB+; Stable (28-Sep-22)	1)CARE BBB+; Stable (07-Jul-21)	1)CARE BBB+; Stable (02-Mar-21) 2)CARE BBB+ (CW with

								Developing Implications) (20-Apr-20)

*Long-term/Short-term.

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

Annexure-4: Complexity level of the various instruments rated

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: Lender details

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

Note on the complexity levels of the rated instruments: CARE 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 any clarifications.

Contact us

Media Contact	Analytical Contacts
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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by methodologies congruent with international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in