

**November 30, 2022**

To

**BSE Limited,**

Listing Department, P J Towers,

Dalal Street,

Mumbai – 400 001.

**Scrip code: 540679**

*Through: BSE Listing Center*

**National Stock Exchange of India Limited,**

Listing Department, "Exchange Plaza",

Bandra-Kurla Complex, Bandra (E),

Mumbai - 400 051.

**Trading Symbol: SMSLIFE**

*Through: NSE Digital Portal*

**SUB: DISCLOSURE OF CREDIT RATING.**

**Ref: Regulation 30 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015**

Dear Sir/Madam,

With reference to the above-cited subject, this is to inform you that **CARE Ratings Limited** (CARE), Credit Rating Agency, has **reaffirmed** the credit ratings of the Company and its Material Subsidiary (Mahi Drugs Private Limited).

**Rating summary of the Company:**

(₹ in Crores)

<b>Facilities/Instruments</b>	<b>Amount</b>	<b>Ratings</b>
Long-Term Bank Facilities	19.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Long-Term / Short-Term Bank Facilities	30.00	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)
Short Term Bank Facilities	0.32	CARE A2 (A Two)
<b>Total Bank Facilities</b>	<b>49.32</b>	

The rating rationale is attached hereto as **Annexure A**.



Conti...

**Rating summary of the Material Subsidiary:**

(₹ in Crores)

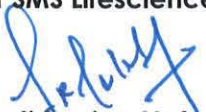
Facilities/Instruments	Amount	Ratings
Long-Term Bank Facilities	23.50	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)

The rating rationale is attached hereto as **Annexure B**.

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

Thanking You.

**For SMS Lifesciences India Limited**

  
**Trupti Ranjan Mohanty**  
Company Secretary



**[Enclosed: as mentioned above]**



No. CARE/HRO/RR/2022-23/1157

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

October 11, 2022

Dear Sir,

**Credit rating of bank facilities for Rs.49.32 cr**

Please refer to our letter dated September 22, 2022 on the above subject.

2. The rationale for the ratings is attached as an **Annexure-I**.
3. 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 October 14, 2022, 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,

*nivedita*

(Nivedita Ghayal)  
Assistant Director  
Encl.: As above

CARE Ratings Limited

401, Ashoka Scintilla, 3-6-520, Himayat Nagar, Hyderabad - 500 029  
Phone: +91-40-4010 2030

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Phone: +91-22-6754 3456  
Email: care@careedge.in • www.careedge.in

CIN-L67190MH1993PLC071691

**Rating Rationale**  
**SMS Lifesciences India Limited**

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	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
<b>Total Facilities</b>	<b>49.32</b> <b>(Rs. Forty-Nine Crore and Thirty- Two Lakhs Only)</b>		

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.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and in other CARE Ratings Ltd.'s publications.  
CARE Ratings Limited

### **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**

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.

CARE Ratings Limited

401, Ashoka Scintilla, 3-6-520, Himayat Nagar, Hyderabad - 500 029  
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### **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](#)

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## 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.



## CARE Ratings Limited

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401, Ashoka Scintilla, 3-6-520, Himayat Nagar, Hyderabad - 500 029  
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**Financial Performance:**

(Rs. crore)

<b>For the period ended / as at March 31,</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<b>(12m, A)</b>	<b>(12m, A)</b>	<b>(12m, A)</b>
<b>Working Results</b>			
Net Sales	256.63	257.46	349.74
Total Operating income	262.05	266.52	351.81
PBILDT	26.70	31.10	36.22
Interest	5.14	4.53	6.17
Depreciation	7.86	7.86	10.01
PBT	14.62	19.96	33.67
PAT (after deferred tax)	10.18	13.56	25.30
Gross Cash Accruals	18.83	22.55	35.18
<b>Financial Position</b>			
Equity Capital	3.02	3.02	3.02
Networth	98.60	112.12	164.82
Total capital employed	190.04	204.73	255.21
<b>Key Ratios</b>			
Growth			
Growth in Total income (%)	-30.97	1.71	32.00
Growth in PAT (after deferred tax) (%)	-42.94	33.13	86.62
Profitability			
PBILDT/Total Op. income (%)	10.19	11.67	10.29
PAT (after deferred tax)/ Total income (%)	3.89	5.09	7.19
ROCE (%)	11.06	12.17	16.90
Solvency			
Debt Equity ratio (times)	0.44	0.40	0.32
Overall gearing ratio(times)	0.66	0.58	0.48
Interest coverage(times)	5.20	6.87	5.87
Term debt/Gross cash accruals (years)	2.32	1.97	1.49
Total debt/Gross cash accruals (years)	3.44	2.87	2.26
Liquidity			
Current ratio (times)	1.14	1.10	1.16
Quick ratio (times)	0.44	0.58	0.53
Turnover			
Average collection period (days)	40	35	35
Average inventory (days)	113	99	84
Average creditors (days)	119	89	83
Operating cycle (days)	34	45	36

A: Audited; P: Provisional

**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 facilities is given in Annexure-5

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**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) 2)CARE BBB+ (CWD) (20-Apr-20)	1)CARE BBB+; Stable (11-Feb-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+ /

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\*Long term/Short term.

**Annexure-3: 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
	<b>Total</b>	<b>19.00</b>		

**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
	<b>Total</b>	<b>0.32</b>		

**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
	<b>Total</b>	<b>30.00</b>		

**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 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

**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.

**Annexure-5: Detailed explanation of covenants of the rated instrument / facilities- NA**

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Email: care@careedge.in • www.careedge.in

CIN-L67190MH1993PLC071691

## Contact us

### Media Contact

Name – Mr. Mradul Mishra  
Contact no. - +91-22-6754 3596  
Email ID - [mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in)

### Analyst Contact

Name: Nivedita Anirudh Ghayal  
Contact no.: +91-40-6793 7400-410  
Email ID: [nivedita.ghayal@careedge.in](mailto:nivedita.ghayal@careedge.in)

### Relationship Contact

Name: Ramesh Bob Asineparthi  
Contact no.: +91 90520 00521  
Email ID: [ramesh.bob@careedge.in](mailto:ramesh.bob@careedge.in)

### About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

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.

#### Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

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.



### CARE Ratings Limited

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401, Ashoka Scintilla, 3-6-520, Himayat Nagar, Hyderabad - 500 029  
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4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
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No. CARE/HRO/RR/2022-23/1158

**Shri TVVSN Murthy**

**Director**

**Mahi Drugs Private Limited**

Plot No. 82, JNPC, Parwada,

Thanam, Visakhapatnam, Andhra Pradesh

Visakhapatnam

Andhra Pradesh (New) 531019

October 11, 2022

Dear Sir,

**Credit rating of bank facilities for Rs.23.50 cr**

Please refer to our letter dated September 22, 2022 on the above subject.

2. The rationale for the ratings is attached as an **Annexure-I**.
3. 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 October 14, 2022, 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,

*nivedita*

(Nivedita Ghayal)

Assistant Director

Encl.: As above

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**Rating Rationale**  
**Mahi Drugs Private Limited**

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	23.50	CARE BBB+ (CE); Stable [Triple B Plus (Credit Enhancement); Outlook: Stable]*	Reaffirmed
Total Facilities	23.50 (Rs. Twenty-Three Crore and Fifty Lakhs Only)		

Details of instruments/facilities in Annexure-1

\*The bank facilities of Mahi Drugs Private Limited (MDPL) are backed by unconditional and irrevocable corporate guarantee extended by SMS Lifesciences India Limited rated 'CARE BBB+; Stable / CARE A2'

**Unsupported Rating**

As stipulated vide SEBI circular dated June 13, 2019

**CARE BB+ [Reaffirmed]**

Note: Unsupported Rating does not factor in the explicit credit enhancement

**Detailed Rationale & Key Rating Drivers for the credit enhanced debt**

The ratings assigned to the bank facilities of Mahi Drugs Private Limited (MDPL) are based on credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by SMS Lifesciences India Limited (SMS Life) to the bank facilities of MDPL

**Detailed Rationale & Key Rating Drivers of SMS Lifesciences India Limited**

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 indicator 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.

**Key Rating Drivers of Mahi Drugs Private Limited i.e. for unsupported rating**

The rating assigned to the bank facilities of Mahi Drugs Private Limited (MDPL) is reaffirmed on account of decline in the profitability margins, presence in the highly fragmented and competitive bulk drug industry along with exposure to regulatory and foreign exchange fluctuation risk. The ratings, however, derives strength from the consistent improvement in total operating income over the years and FY22(refers to the period April 01 to March 31), improved capital structure, experienced promoters along with established track record of the SMS group in the pharmaceutical industry and being the subsidiary of SMS Life, Mahi Drugs has assured off take since it is the backward integration of SMS Life. The rating further also takes into account its ability to diversify its product portfolio since the capacity expansion project was completed by March 31, 2021 and integrated capabilities arising out of recent equity investment by Chemwerth Inc.

**Rating Sensitivities of SMS Life:**

**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

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and in other CARE Ratings Ltd.'s publications.  
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- ✓ Improvement in profitability margins beyond 12-13% on a sustained basis and ROCE of upward of 16%

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

- ✓ Overall gearing of the company going 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**

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

CARE Ratings Limited

401, Ashoka Scintilla, 3-6-520, Himayat Nagar, Hyderabad - 500 029  
Phone: +91-40-4010 2030

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Phone: +91-22-6754 3456  
Email: care@careedge.in • www.careedge.in

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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



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401, Ashoka Scintilla, 3-6-520, Himayat Nagar, Hyderabad - 500 029  
Phone: +91-40-4010 2030

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Phone: +91-22-6754 3456  
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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:**

**Credit Enhanced (CE) Ratings:** Assessment of the consolidated financials of the Guarantor (i.e. SMS Life). CARE has based its rating for the term loan and cash credit bank facility to the extent of Rs.25.00 crore on the assessment of the guarantor, SMS Lifesciences India Limited which has provided an unconditional and irrevocable corporate guarantee for the facilities mentioned above. Further, Mahi Drugs is wholly owned subsidiary of SMS Life and act as a backward integration for the same.

**Unsupported Ratings:** Standalone assessment of Mahi Drugs Private Limited along with factoring its linkage with parent i.e. SMS Life which has extended need-based financial support to it and also Mahi Drugs would be acting as backward integrated plant for SMS life

**Applicable Criteria**

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios - Financial Sector](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Credit Enhanced Debt](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Pharmaceutical](#)

**About the Company – SMS Lifesciences India Limited**

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.

**About the Company – Mahi Drugs Private Limited**

Mahi Drugs Private Limited (Mahi Drugs) incorporated in the year 2012 was one of the group companies of Mahidara Chemicals Private Limited. In the year 2018-19, SMS Lifesciences India Limited acquired 100% stake in Mahi Drugs for a consideration of Rs.25.93 crore and Mahi DrugsL has become Wholly owned Subsidiary to SMS Lifesciences India Limited (SMS Life, rated CARE BBB+; Stable/CARE A2). Mahi Drugs has common promoters as SMS Life. Mahi Drugs has started its commercial operations in the year 2013 and the company’s manufacturing unit has 2 production blocks situated at Visakhapatnam with capacity of 90 KLPA. Post-acquisition by SMS Life, the capacity of intermediate increased to 200 KLPA. Further, on May 07, 2022, MDPL has ceased to be a wholly owned subsidiary of SMS Life but shall continue as a Subsidiary Company of SMS life with 60% equity stake.

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401, Ashoka Scintilla, 3-6-520, Himayat Nagar, Hyderabad - 500 029  
Phone: +91-40-4010 2030

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
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## Financial Performance - SMS Lifesciences India Limited (Consolidated)

(Rs. crore)

For the period ended / as at March 31,	2020 (12m, A)	2021 (12m, A)	2022 (12m, A)
<b>Working Results</b>			
Net Sales	256.63	257.46	349.74
Total Operating income	262.05	266.52	351.81
PBILDT	26.70	31.10	36.22
Interest	5.14	4.53	6.17
Depreciation	7.86	7.86	10.01
PBT	14.62	19.96	33.67
PAT (after deferred tax)	10.18	13.56	25.30
Gross Cash Accruals	18.83	22.55	35.18
<b>Financial Position</b>			
Equity Capital	3.02	3.02	3.02
Networth	98.60	112.12	164.82
Total capital employed	190.04	204.73	255.21
<b>Key Ratios</b>			
Growth			
Growth in Total income (%)	-30.97	1.71	32.00
Growth in PAT (after deferred tax) (%)	-42.94	33.13	86.62
Profitability			
PBILDT/Total Op. income (%)	10.19	11.67	10.29
PAT (after deferred tax)/ Total income (%)	3.89	5.09	7.19
ROCE (%)	11.06	12.17	16.90
Solvency			
Debt Equity ratio (times)	0.44	0.40	0.32
Overall gearing ratio(times)	0.66	0.58	0.48
Interest coverage(times)	5.20	6.87	5.87
Term debt/Gross cash accruals (years)	2.32	1.97	1.49
Total debt/Gross cash accruals (years)	3.44	2.87	2.26
Liquidity			
Current ratio (times)	1.14	1.10	1.16
Quick ratio (times)	0.44	0.58	0.53
Turnover			
Average collection period (days)	40	35	35
Average inventory (days)	113	99	84
Average creditors (days)	119	89	83
Operating cycle (days)	34	45	36

A: Audited

## Financial Performance – Mahi Drugs Private Limited (Standalone)

(Rs. crore)

For the period ended / as at March 31,	2020 (12m, A)	2021 (12m, A)	2022 (12m, P)
<b>Working Results</b>			
Net Sales	22.60	17.25	32.04
Total Operating income	22.65	17.25	32.20
PBILDT	1.95	0.32	2.94
Interest	0.05	0.03	1.55
Depreciation	0.62	0.65	2.02
PBT	1.58	0.09	-0.24
PAT (after deferred tax)	1.29	0.26	-0.08
Gross Cash Accruals	1.80	0.72	1.77
<b>Financial Position</b>			

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401, Ashoka Scintilla, 3-6-520, Himayat Nagar, Hyderabad - 500 029  
Phone: +91-40-4010 2030

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
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Equity Capital	4.72	4.72	6.37
Networth	11.56	11.83	38.05
Total capital employed	27.04	31.77	56.39
<b>Key Ratios</b>			
Growth			
Growth in Total income (%)	-42.20	-23.67	86.67
Growth in PAT (after deferred tax) (%)	6.23	-79.70	-131.10
Profitability			
PBILDT/Total Op. income (%)	8.60	1.83	9.13
PAT (after deferred tax)/ Total income (%)	5.69	1.52	-0.25
ROCE (%)	8.56	0.44	2.99
Solvency			
Debt Equity ratio (times)	1.25	1.60	0.46
Overall gearing ratio(times)	1.25	1.60	0.46
Interest coverage(times)	40.29	10.84	1.90
Term debt/Gross cash accruals (years)	8.05	26.35	9.89
Total debt/Gross cash accruals (years)	8.05	26.35	9.89
Liquidity			
Current ratio (times)	0.91	0.40	0.37
Quick ratio (times)	0.61	0.30	0.24
Turnover			
Average collection period (days)	43	44	20
Average inventory (days)	95	69	47
Average creditors (days)	177	95	78
Operating cycle (days)	-39	18	-11

A: Audited; P: Provisional

**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 facilities is given in Annexure-5

#### 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
Fund-based - LT-Term Loan		-	-	30/06/2026	18.50	CARE BBB+ (CE); Stable
Fund-based - LT-Cash Credit		-	-	-	5.00	CARE BBB+ (CE); Stable
Un Supported Rating-Un Supported Rating (Long Term)		-	-	-	0.00	CARE BB+

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## 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	18.50	CARE BBB+ (CE); Stable	-	1)CARE BBB+ (CE); Stable (07-Jul-21)	1)CARE BBB+ (CE) (CWD) (27-May-20)	-
2	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB+ (CE); Stable	-	1)CARE BBB+ (CE); Stable (07-Jul-21)	1)CARE BBB+ (CE) (CWD) (27-May-20)	-
3	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BB+	-	1)CARE BB+ (07-Jul-21)	1)CARE BB+ (27-May-20)	-

\*Long term/Short term.

## Annexure-3: 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.	RBL Bank Limited	15.54	TL	O/s as on May 2022
2.	RBL Bank Limited	1.39	GECL	O/s as on May 2022
3.	Proposed	1.57	-	-
	<b>Total</b>	<b>18.50</b>		

#### 1.B. Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)	Debt Repayment Terms	Remarks
1.	RBL Bank Limited	5.00	-	Cash credit
	<b>Total</b>	<b>5.00</b>		

**Total Long Term Facilities : Rs.23.50 crore**

**Total Facilities (1.A+1.B) : Rs.23.50 crore**

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Un Supported Rating-Un Supported Rating (Long Term)	Simple

**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.

## Annexure-5: Detailed explanation of covenants of the rated instrument / facilities- NA

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401, Ashoka Scintilla, 3-6-520, Himayat Nagar, Hyderabad - 500 029  
Phone: +91-40-4010 2030

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Phone: +91-22-6754 3456  
Email: care@careedge.in • www.careedge.in

CIN-L67190MH1993PLC071691

## Contact us

### Media Contact

Name – Mr. Mradul Mishra  
Contact no. - +91-22-6754 3596  
Email ID - [mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in)

### Analyst Contact

Name: Nivedita Anirudh Ghayal  
Contact no.: +91-40-6793 7400-410  
Email ID: [nivedita.ghayal@careedge.in](mailto:nivedita.ghayal@careedge.in)

### Relationship Contact

Name: Ramesh Bob Asineparthi  
Contact no.: +91 90520 00521  
Email ID: [ramesh.bob@careedge.in](mailto:ramesh.bob@careedge.in)

### About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

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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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.



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401, Ashoka Scintilla, 3-6-520, Himayat Nagar, Hyderabad - 500 029  
Phone: +91-40-4010 2030

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
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