

OCTOBER 12, 2016

CARE PLACES THE RATINGS ASSIGNED TO THE BANK FACILITIES OF SMS PHARMACEUTICALS LIMITED ON CREDIT WATCH

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	233.25 (enhanced by 232.75)	CARE A- (Single A Minus) [credit watch]	Rating placed on Credit Watch
Short-term Bank Facilities	64.83	CARE A2 (A Two) [credit watch]	Rating placed on Credit Watch
Total Facilities	298.08 (Rupees Two Hundred Ninety Eight crore and Eight lakh only)		

Rating Rationale

The above ratings have been placed under 'credit watch' with developing implications, following approval of Draft Scheme of Arrangement for Demerger (DSAD) of Semi-regulated units (Unit I, IV and V) along with other assets to transfer the same to SMS Lifesciences India Limited (Resulting Company) by the company's board. CARE is in the process of evaluating the impact of the above developments on the credit quality of SMS Pharmaceuticals Ltd and would take a view on the rating when the exact implications of the above are clear.

The ratings continue to derive strength from the promoter's experience, established track record of the company with presence in global markets, presence of regulatory approvals, satisfactory order book position with reputed customers, satisfactory working capital cycle, comfortable capital structure and favourable industry outlook.

The ratings also take into account recent commencement of operations of new block in unit VII, satisfactory profitability margins albeit decline during FY16 (refers to the period April 01 to March 31) and improved PAT margins during FY16. The ratings are, however, constrained by sales concentration risk despite SMS's presence in the several therapeutic segments and forex risk on account of exports and regulatory risk with respect to the pharmaceutical industry.

The ability of the company to improve its scale of operations, maintain profitability margins and comfortable capital structure are the key rating sensitivities.

Background

SMS, a listed company, was originally started by Mr K G Suggula in the year 1987 as a private limited company engaged in the manufacturing of pharmaceutical bulk drugs & intermediates. The company soon turned sick due to the lack of demand for the products being manufactured. The current promoters' Mr P Ramesh Babu (Chairman and Managing Director) and Mr TVVSN Murthy (Vice Chairman and Joint Managing Director) acquired the company in the year 1990. SMS is engaged in the manufacturing of Active Pharmaceutical Ingredients (APIs) and its intermediates and also undertakes its contract manufacturing. SMS has over the years set up manufacturing facilities to suit its operations and to meet various regulatory requirements. The company presently operates five manufacturing facilities and two R&D facilities (one in Andhra Pradesh and the rest in Telangana).

Recent Development

The Board of SMS has approved the "Draft Scheme of Arrangement for Demerger (DSAD) of Semi Regulated Units (Unit - I, IV & V) along with other assets to transfer the same to SMS Lifesciences India Limited (Resulting Company), with an object to reduce the impact of Semi Regulated Units on Regulated Units, achieving operational efficiencies, site synergies and streamlining its current structure. The DSAD is subject to the approvals of stock exchanges, Securities Board of India Limited (SEBI), Reserve Bank of India (RBI) and other regulatory authorities and also Hon'ble High Court of Judicature at Hyderabad for the State of Telangana and Andhra Pradesh. Post de-merger, SMS will comprise of Unit II and Unit VII, while the remaining 3 units will be under the newly formed entity.

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

During FY16, SMS Pharmaceuticals Limited earned TOI of Rs.605.82 crore (Rs.595.61 crore in FY15) and PAT of Rs.41.64 crore (Rs.35.24 crore in FY15). Furthermore, during Q1FY17 (UA) (refers to period from April 01 to June 30) the company achieved a TOI of Rs.145.85 crore (Rs.124.65 crore in Q1FY16 (UA)) with PAT of Rs.9.15 crore (Rs.7.20 crore in Q1FY16 (UA)).

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

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Disclaimer: CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo 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.

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CIN - L67190MH1993PLC071691