Smruthi Organics Limited

February 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	12.00	CARE BBB; Stable	Assigned
Long Term / Short Term Bank Facilities*	20.00 (Enhanced from 15.00)	CARE BBB; Stable / CARE A3+	Revised from CARE BBB; Stable
Short Term Bank Facilities	13.00	CARE A3+	Reaffirmed

*Nature of facility changed from LT to LT/ST during current review.
Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings to the bank facilities of Smruthi Organics Limited (SOL) continues to derive comfort from extensive experience of promoters in the pharmaceutical industry, accredited manufacturing facilities, and comfortable financial risk profile. These rating strengths, however, remain tempered by modest scale of operations, product and customer concentration risk, competitive nature of business, and exposure to volatility in raw material prices, regulatory and foreign exchange fluctuation risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in TOI to more than ₹300 crore along with operation margin of 18% and above on sustained basis
- Ability of the company to reduce the therapeutic concentration risk with no segment contributing more than 30% along with diversifying its customer base
- Ability of the company to diversify geographically with significant level of revenues from regulated markets

Negative factors

- Deterioration in the overall gearing beyond 1x on sustained basis
- TOI falling below ₹100 crore and PBILDT margin falling below 10% on a sustained basis

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects the company's ability to maintain its comfortable financial risk profile while sustaining its existing operational performance over medium term

Detailed description of the key rating drivers:

Key strengths

Comfortable Financial risk Profile

As on March 31, 2023, the overall gearing of the company stood comfortable at 0.08 times (PY: 0.04 times). The debt coverage indicators also remained comfortable marked by total debt/ GCA which stood at 0.75x for FY23 as against 0.20x for FY22 respectively. Interest coverage remained healthy at 11.92x during FY23 (18.74x during FY22).

SOL is incurring a debt funded capex, which coupled with moderate profitability is likely to result in marginal deterioration in the capital structure and debt coverage indicators in the near term.

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