



# SMS Pharmaceuticals Ltd

## Key Stock Indicators

NSE Ticker :	SMSPHARMA	CMP as on 29 Nov 2011-Rs/share :	156.8	Shares outstanding (mn) :	10.0
Bloomberg Ticker :	SMSPH:IN	52 week range up to 29 Nov 2011 (Rs)(H/L) :	206.1/155.0	Free Float (%) :	46.0
Face value per share :	10.0	Market Cap as on 29 Nov 2011 (Rs mn) :	1,570	Average daily volumes (12 months) :	2,354
Div.Yield (%) :	1.0	Enterprise Value as on 29 Nov 2011 (Rs mn) :	3,382	Beta (2 year) :	0.8

Established in 1987, SMS Pharmaceuticals Limited (SMS) is engaged in the manufacture of active pharmaceutical ingredients (APIs), consumer health care, herbal formulations, custom synthesis and contract research and manufacturing services (CRAMS). It has a presence in over 70 countries, including the US and Japan, and in European and Latin American countries. Exports contributed ~55% to sales in FY11.

## KEY HIGHLIGHTS

### Diversified product basket across therapeutic areas

SMS is largely present in high-growth therapeutic segments such as anti-cancer, anti-ulcer, anti-hypertensive, anti-migraine and cardiovascular. It is the single largest producer of anti-ulcer products. It specialises in APIs and intermediates and formulations for oncology products. The company is a leader in the extremely competitive APIs with products such as Ranitidine, Sildenafil, Sumatriptan, Pantoprazole, etc. Having different products across therapeutic areas reduces the risk of product concentration and diversifies the company's revenue stream.

### Exports contribute more than half of revenue

The company's manufacturing facilities are approved by the US FDA. Exports grew at a CAGR of 23% between FY09 and FY11. SMS has a presence in over 70 countries including Europe, North and South America, Japan, etc. Exports' contribution to overall sales was ~55% in FY11.

## KEY RISKS

- Foreign exchange fluctuation — exports contributed ~55% to sales in FY11
- Increasing competition in API segment

## Stock Performances vis-à-vis market

	Returns			
	YTD	1-m	3-m	12-m
SMSPHARMA	-14	-6	-4	-11
NIFTY	-18	-10	-2	-18

### Note:

- YTD returns are since Apr 1, 2011 to Nov 29, 2011.
- 1-m, 3-m and 12-m returns are up to Nov 29, 2011

## Growth Trends

NET SALES: 😐 PAT: 😞 EPS: 😞

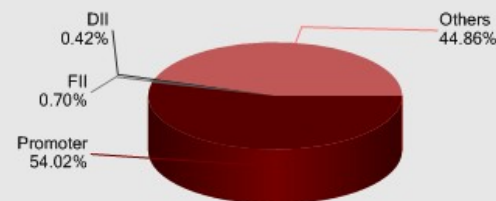
- 😊 Indicates CAGR for 3 years is greater than 10%
- 😐 Indicates CAGR for 3 years is between -10% to 10%
- 😞 Indicates CAGR for 3 years is less than -10%

## Key Financial Indicators

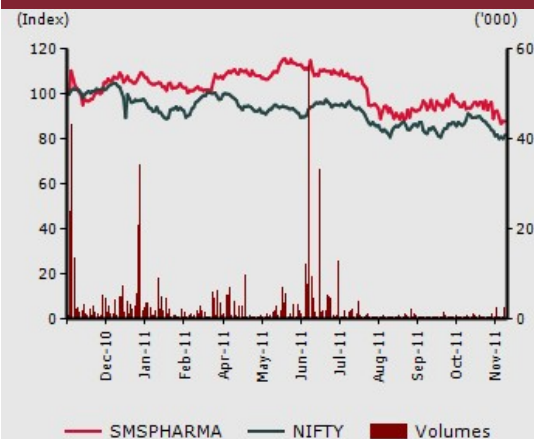
	MAR-09	MAR-10	MAR-11
Revenue (Rs mn)	2,446.1	2,209.6	2,256.1
EBITDA margins (%)	10.6	10.7	17.3
PAT (Rs mn)	63.0	24.0	83.9
PAT margins (%)	2.6	1.1	3.7
Gearing (x)	0.7	0.8	0.9
EPS (Rs/share)	6.3	2.4	8.4
PE (x)	12.3	68.1	21.6
P/BV (x)	0.4	0.8	0.9
RoCE (%)	6.3	4.3	6.7
RoE (%)	3.3	1.2	4.1
EV/EBITDA (x)	7.5	13.6	9.3

n.m. : Not meaningful

## Shareholding (As on September 30, 2011)



## Indexed price chart



# SMS Pharmaceuticals Ltd

## BACKGROUND

Promoted by Mr K G Suggula, SMS is engaged in the manufacture of APIs, consumer health care, herbal formulations, custom synthesis, and CRAMS. Its products include APIs and intermediates such as cytotoxic solid dose, sterile cytotoxic liquid and lyophilised products, bio-products, inorganic products, and nutraceuticals. SMS is the world's largest producer of Ranitidine HCL and possesses one of the largest R&D facilities in India.

The company enjoys leadership in products such as Ranitidine HCL, Sumatriptan Succinate and Ketoconazole. Its APIs are made for cancer, diabetic, emetic, fungal, migraine, obesity, psychotic, ulcer and other disorders. It has seven manufacturing facilities at Hyderabad, compliant with US FDA and WHO-GMP standards. SMS's products are exported to over 70 countries. The company has a presence in the US, East Asia, Europe and Latin America. Export contributed ~55% to FY11 revenue.

## COMPETITIVE POSITION

### Peer Comparison

	SMS Pharmaceuticals Ltd Mar-11	Aarti Drugs Ltd Mar-11	Kopran Ltd Mar-11	Marksans Pharma Ltd Mar-11	Natco Pharma Ltd Mar-11	Wanbury Ltd Mar-11
Revenue (Rs mn)	2,256.1	5,011.0	1,955.9	3,045.8	4,620.8	3,898.6
EBITDA margins (%)	17.3	14.0	10.9	4.9	21.4	-9.6
PAT (Rs mn)	83.9	240.2	45.3	-2,218.6	519.1	-889.6
PAT margins (%)	3.7	4.8	2.3	-72.8	11.2	-22.8
Gearing (x)	0.9	1.9	1.8	n.m.	0.7	n.m.
EPS (Rs/share)	8.4	19.8	1.2	-6.0	18.4	-60.6
PE (x)	21.6	6.4	20.2	n.m.	14.9	n.m.
P/BV (x)	0.8	1.0	1.2	n.m.	2.3	n.m.
RoCE (%)	6.7	13.3	6.1	n.m.	15.3	n.m.
RoE (%)	4.1	17.7	6.6	-	16.7	-
EV/EBITDA (x)	9.3	5.9	9.1	36.2	9.7	n.m.

n.m: Not meaningful

## FINANCIAL PROFILE

### Revenue flat in FY11, but cost cutting helps PAT surge

Revenue remained flat at ~Rs 2.2 bn in FY11, as 2% drop in export volumes, which contributed more than 50% to total revenue, nullified the 7% increase in domestic sales.

EBITDA margin improved 660 basis points to 17.3% in FY11, as cost cutting measures adopted by the company kicked in.

The company's net profit surged to ~Rs 84 mn in FY11 from Rs 24 mn in FY10, aided by a ~65% growth in operating profit. However, interest and depreciation costs increased during the period.

### Key Financial Indicators

	Units	Mar-09	Mar-10	Mar-11
Revenue	Rs million	2,446.1	2,209.6	2,256.1
EBITDA margins	Per cent	10.6	10.7	17.3
PAT	Rs million	63.0	24.0	83.9
PAT margins	Per cent	2.6	1.1	3.7
Revenue growth	Per cent	14.4	-9.7	2.1
EBITDA growth	Per cent	-39.8	-8.7	64.6
PAT growth	Per cent	-76.6	-62.0	250.4
Gearing	Times	0.7	0.8	0.9
RoCE	Per cent	6.3	4.3	6.7
RoE	Per cent	3.3	1.2	4.1

## INDUSTRY PROFILE

### Bulk drugs

In India, around 80-90 per cent of the bulk drug production is exported. Bulk drug exports have grown at a compounded rate of 34-35 per cent over the last five years to an estimated \$7.5 billion in 2009-10. Indian companies have the advantage of lower costs and well developed process chemistry skills (employee and manufacturing costs) as compared to companies in US and Europe. Indian players are increasingly focusing on exports to generic players and innovators in regulated markets. The Indian bulk drugs industry is highly fragmented, with the unorganised segment having a sizeable presence. While there are a large number of standalone bulk drug manufacturers, most formulators are also backward integrated into bulk drug production. Larger players with the ability to develop products, which are new or difficult to manufacture, or involve large number of processes, have been able to insulate their margins from price pressures. However, smaller bulk drug players, who have older products in their portfolio and are unable to continuously add new products, face pricing pressure and earn lower margins.

## ANNUAL RESULTS

### Income statement

(Rs million)	Mar-09	Mar-10	Mar-11
Net Sales	2,409.1	2,146.7	2,192.3
<b>Operating Income</b>	<b>2,446.1</b>	<b>2,209.6</b>	<b>2,256.1</b>
<b>EBITDA</b>	<b>259.5</b>	<b>237.0</b>	<b>390.1</b>
<b>EBITDA Margin</b>	<b>10.6</b>	<b>10.7</b>	<b>17.3</b>
Depreciation	62.8	83.6	126.4
Interest	120.8	127.8	162.0
Other Income	3.6	3.2	3.2
PBT	83.3	29.0	104.9
<b>PAT</b>	<b>63.0</b>	<b>24.0</b>	<b>83.9</b>
<b>PAT Margin</b>	<b>2.6</b>	<b>1.1</b>	<b>3.7</b>
No. of shares(Mn No.)	10.0	10.0	10.0
Earning per share(EPS)	6.3	2.4	8.4

### Cash flow

(Rs million)	Mar-09	Mar-10	Mar-11
Pre-tax Profit	79.5	28.8	104.8
Total tax paid	-9.8	-5.0	-21.0
Depreciation	62.8	83.6	126.4
Change in working capital	-14.2	-1.7	-240.9
<b>Cash flow from operating activities</b>	<b>118.3</b>	<b>105.7</b>	<b>-30.7</b>
Capital expenditure	-573.5	-544.5	-234.6
Investments and others	0.0	0.0	0.0
<b>Cash flow from investing activities</b>	<b>-573.5</b>	<b>-544.5</b>	<b>-234.6</b>
Equity raised/(repaid)	0.1	0.0	0.0
Debt raised/(repaid)	455.2	260.7	238.0
Dividend (incl. tax)	-23.4	-11.7	-17.5
Others (incl extraordinary)	-6.6	38.4	52.0
<b>Cash flow from financing activities</b>	<b>425.3</b>	<b>287.4</b>	<b>272.5</b>
Change in cash position	-29.9	-151.4	7.2
Opening cash	233.7	203.7	52.5
Closing cash	203.7	52.5	59.8

n.m.: Not meaningful

## QUARTERLY RESULTS

### Profit and loss account

(Rs million)	Sep-11	% of Rev	Sep-10	% of Rev	Jun-11	% of Rev	Sep-11	% of Rev	Sep-10	% of Rev
No of Months	3		3		3		6		6	
<b>Revenue</b>	<b>522.0</b>	<b>100.0</b>	<b>524.2</b>	<b>100.0</b>	<b>506.5</b>	<b>100.0</b>	<b>1,034.2</b>	<b>100.0</b>	<b>994.6</b>	<b>100.0</b>
<b>EBITDA</b>	<b>105.3</b>	<b>20.2</b>	<b>96.8</b>	<b>18.5</b>	<b>94.0</b>	<b>18.6</b>	<b>199.4</b>	<b>19.3</b>	<b>197.5</b>	<b>19.9</b>
Interest	51.1	9.8	37.1	7.1	48.4	9.6	99.5	9.6	85.9	8.6
Depreciation	32.4	6.2	33.4	6.4	32.1	6.3	64.5	6.2	62.4	6.3
PBT	21.8	4.2	26.4	5	13.5	2.7	35.4	3.4	49.2	4.9
<b>PAT</b>	<b>17.4</b>	<b>3.3</b>	<b>21.1</b>	<b>4</b>	<b>10.7</b>	<b>2.1</b>	<b>28.2</b>	<b>2.7</b>	<b>39.4</b>	<b>4</b>

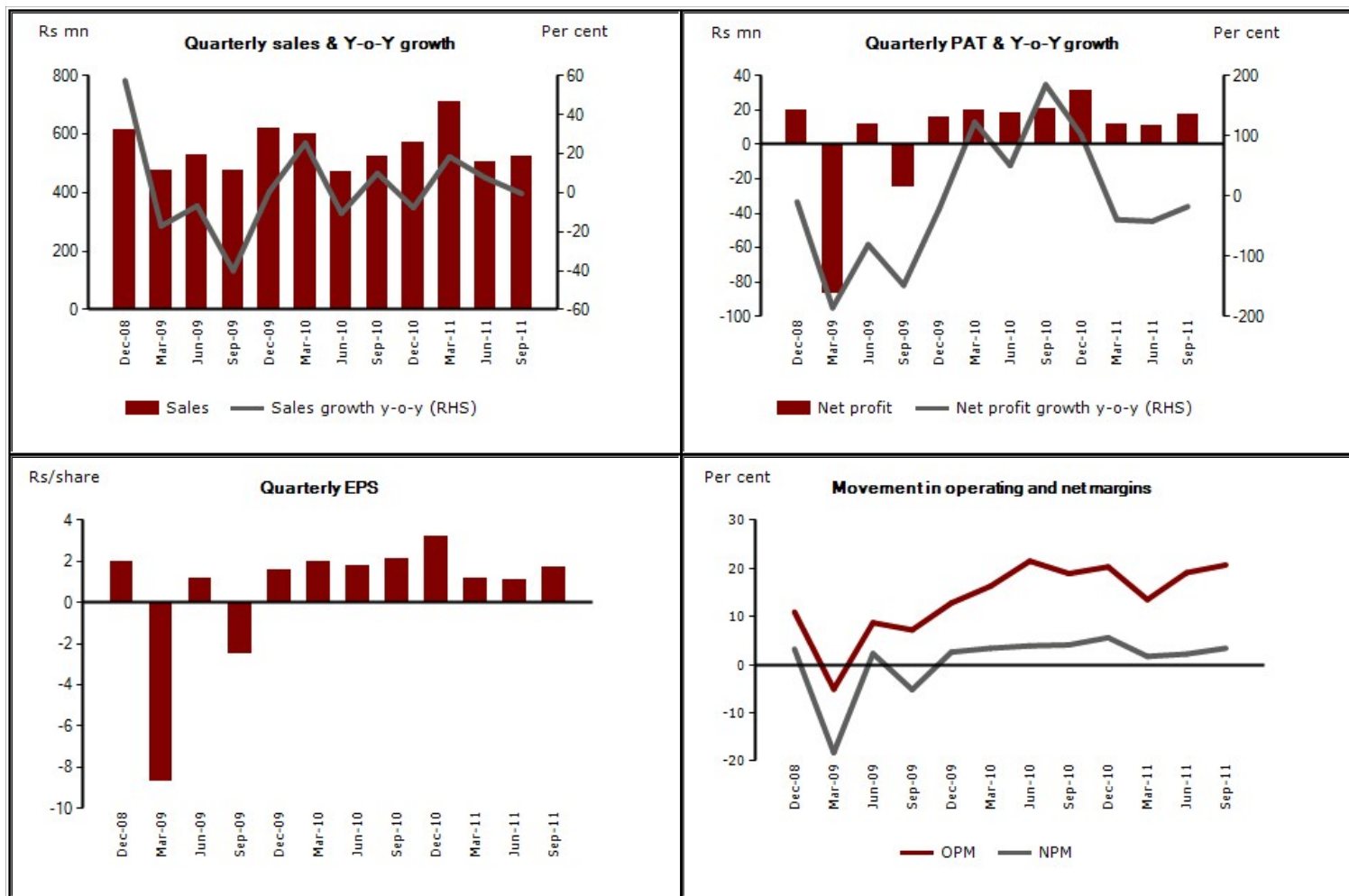
### Balance Sheet

(Rs million)	Mar-09	Mar-10	Mar-11
Equity share capital	100.2	100.2	100.2
Reserves and surplus	1,830.4	1,881.0	1,999.3
<b>Tangible net worth</b>	<b>1,930.6</b>	<b>1,981.1</b>	<b>2,099.5</b>
Deferred tax liability:  asset	169.5	169.5	169.5
Long-term debt	847.3	990.7	1,107.1
Short-term-debt	525.2	642.5	764.1
<b>Total debt</b>	<b>1,372.5</b>	<b>1,633.2</b>	<b>1,871.2</b>
Current liabilities	286.9	399.4	452.2
Total provisions	23.4	11.7	19.7
<b>Total liabilities</b>	<b>3,782.9</b>	<b>4,194.9</b>	<b>4,612.1</b>
Gross block	1,310.3	2,689.3	2,708.0
Net fixed assets	2,076.8	2,537.6	2,645.8
<b>Investments</b>	<b>5.2</b>	<b>5.2</b>	<b>5.2</b>
<b>Current assets</b>	<b>1,700.9</b>	<b>1,652.1</b>	<b>1,961.1</b>
Receivables	491.3	483.2	417.2
Inventories	719.3	757.7	1,144.2
Cash	203.7	52.5	59.8
<b>Total assets</b>	<b>3,782.9</b>	<b>4,194.9</b>	<b>4,612.1</b>

### Ratios

	Mar-09	Mar-10	Mar-11
Revenue growth(%)	14.4	-9.7	2.1
EBITDA growth(%)	-39.8	-8.7	64.6
PAT growth(%)	-76.6	-62.0	250.4
EBITDA margins(%)	10.6	10.7	17.3
Tax Rate(%)	11.8	17.3	20.0
PAT margins(%)	2.6	1.1	3.7
Dividend payout(%)	31.8	41.8	17.9
Dividend per share(Rs)	2.0	1.0	1.5
BV(Rs)	192.8	197.8	209.6
Return on Equity(%)	3.3	1.2	4.1
Return on Capital employed(%)	6.3	4.3	6.7
Gearing(x)	0.7	0.8	0.9
Interest coverage(x)	2.1	1.9	2.4
Debt/EBITDA(x)	5.3	6.9	4.8
Asset turnover(x)	2.0	1.1	0.8
Current ratio(x)	2.0	1.6	1.6
Gross current assets(days)	250	269	316

## FOCUS CHARTS AND TABLES



### Shareholding pattern (Per cent)

	Dec 2010	Mar 2011	Jun 2011	Sep 2011
Promoters	54.0	54.0	54.0	54.0
FII	0.7	0.7	0.7	0.7
DII	0.4	0.4	0.4	0.4
Others	44.9	44.9	44.9	44.9

### Board of Directors

Directors Name	Designation
Ramesh Babu Potluri	Executive Chairman & Managing Director
Veera Venkata Satyanarayana Murthy Talluri	Vice Chairman & Jt. Managing Director
Pitcheswara Rao Achanta	Non-Executive Director
Manoranjan Choudary Boyapati	Non-Executive Director
Mihir Kanthi Chaudhuri	Non-Executive Director
Subramanyeswara Rao Kudravalli	Non-Executive Director
Uma Maheswaram Kuravi	Nominee Director-Export-Import Bank Of India
Ayman Sahli	Nominee Director

### Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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