

MANAGEMENT DISCUSSION AND ANALYSIS

ECONOMIC OVERVIEW AND OUTLOOK

In the current scenario, the global economic environment is highly unpredictable as the duration and the impact of unprecedented pandemic is difficult to ascertain. International Monetary Fund (IMF) has projected that the global economy shall contract by 3% in the year 2019-20, much worse than during the year 2008-09 financial crises; in a baseline scenario, assuming that the pandemic fades in the second half of the year, the projected global economy is to grow by 5.8% in 2021 as economic activity normalizes, being coupled with some effective policy support; needless to mention that effective policy is essential to forestall the possibility of future outcomes.

Central Statistical Organization (CSO) in February, 2020, had estimated that Indian Gross Domestic Product (GDP) will grow at 5% for the year 2019-20 which was itself at multi-year low. However, with the rapid outbreak of pandemic in March 2020 in India, there was a sharp decline in demand and supply across sectors globally and India was no exception. This lowered the fourth quarter GDP to 3.2%, thereby lowering the estimate to 4.2% for the year 2019-20.

Your Company commences this year with a high degree of uncertainty with respect to economic situations, both globally as well as in India. Various domestic and global agencies are expecting India's GDP to contract in the fiscal year 2020-21, as the extended lockdown has severely impacted the economic activity in the country. However, sectors like pharmaceuticals, agriculture and other essential services are more resilient and are expected to be less adversely impacted. Further, Indian Government has also announced a fiscal stimulus of around Rs. 20,00,000 lakhs crores (nearly 10% of GDP) and has also launched a Production Linked Incentive (PLI) Scheme for promoting indigenous manufacturing of key Starting Materials (KSMs)/ Drug Intermediates(DIs) and Active Pharmaceutical Ingredients (APIs) In India.

This provides much needed near-term relief and we expect the Government to announce additional measures to support growth of the Industry and Economy to revive in the fiscal year.

OVERVIEW OF PHARMACEUTICAL SECTOR

The pharmaceutical industry is one of the world's fastest growing industries and among the biggest contributors to the world economy. It plays a unique role in improving the lives of patients. Its role has become far more critical amidst the fight against COVID -19 pandemic.

INDIAN PHARMACEUTICAL INDUSTRY

Indian pharmaceutical sector is regarded as the "Pharmacy to the world" as it supplies over 62% of global demand for various vaccines, 33% of generic demand in the US and 25% of all medicine in the UK.

The pharmaceutical sector in India was valued at Rs. 3,09,379 Crores in 2019-20. India's domestic pharmaceutical market turnover reached Rs. 1,58,227 Crores in 2019-20, growing at 7.5% year-on-year from Rs. 1,47,204 Crores in 2018-19.

The data published by Pharmexcil shows that in the mid of 2019, Indian pharmaceutical market grew by 20% a year-to-year basis, but saw a decline of 23% in the month of March 2020, due to the ongoing pandemic.

Indian drugs are exported to more than 200 countries in the world, with the US as the key market. In the year 2019-20, 34% of the Pharmaceuticals export to the US was Bulk drugs, intermediates, drug formulations and including others. Indian API industry is ranked third largest in the world contributing 57% of APIs prequalified list of the WHO.

The Indian Government along with the local State Government of Telangana has taken many steps to reduce costs and bring down healthcare expenses in order to cater the scarcity of critical API's & High-end Medical devices indigenously.

In addition, Hyderabad being considered as the pharmaceutical manufacturing hub of the country and contributes up to 30-40% of the domestic pharma production. Pharmaceutical export also has a majority share in the total merchandise export from the city. During 2019-20, pharmaceutical products export from the city approximately stood at Rs. 25,639 Crores.

OPPORTUNITIES, THREATS AND OUTLOOK

Your Company will be able to place itself in a strong position by expanding strategically, increasing its

manufacturing capacities and enhancing capacities across the organization. We are looking at different opportunities in untapped markets and also across a value chain.

We are planning to set up alliances with business associates in the global market, in order to boost the selective existing products like Famotidine, New APIs/ intermediates, Contract manufacturing and manufacturing collaborations.

We are fully conscious of our responsibility toward our customers and our efforts are directed toward the fulfillment of customer satisfaction through the quality of products. As the consolidation of this industry gains momentum along with need for reliable API / intermediate manufacturers as alternative to Chinese manufacturing, the company is focused on sustainable processes with impetus on EHS, quality and regulatory requirements

The company is focused on efficiency through new technology and cost improvement initiatives to create value for stakeholders and we will continue to focus on training and motivation of manpower so as to develop teams of qualified and skilled personnel to effectively discharge their responsibilities in a number of projects and activities.

RANITIDINE UPDATE:

After the USFDA statement to recall and review the said molecule, various Regulatory Authorities globally are still reviewing the information and few have halted the procurement; customers in some countries are taking trials with improved processes and will decide further course of action.

We are currently providing the molecule within prescribed NDMA impurity Limits at release and are constantly working on quality improvement. Even though some production and supply is going on but there will be reduction in sales contribution of Ranitidine in the year 2020-21. As the said molecule is a high volume - low margin business, we do not foresee any significant impact on the profitability and we are confident of maintaining a sustainable revenue stream.

Risks & Concerns

As we are still in the middle of the pandemic, there is high level of uncertainty about the time required for things to get normal and the extent to which pandemic will impact

the operations and financial results is dependent on the future developments, which are highly uncertain. These along with few other issues as mentioned below are some of the major risks in the immediate future and its long term impact needs to be assessed.

- Depreciated rupee has increased the price of imported products.
- Impact of changes in regulatory guidelines related to Ranitidine HCL product
- Raw material Import from China has been impacted due to the logistics restrictions.
- Delay in receiving clearances of competent authorities could impact the execution of the projects and could have negative influence on the production.

Mandatory Risk Management Committee is not applicable to the Company pursuant to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015; however, your Company has been proactive in terms of mitigating all operational risks in an organized manner.

Financial performance with respect to Operational Performance

The revenue from operations for the year ended 31st March, 2020 amounted to Rs. 256.95 Crores as against Rs. 344.15 Crores for the previous year. Thus the income from operations of the Company has decreased by about 25.34% as compared to last year's revenue from operations, mostly due to the NDMA impurity Ranitidine guidelines issued by USFDA.

(Detailed report on financials form part of the Directors' Report)

Human Resources

Your Company's Human Resource policy aims to make SMS Group a preferred place to work. This is being achieved through various initiatives including skill development, personality enhancement and employee engagement through internal communications to foster happiness at work.

The Company acknowledges the indispensable role of all employees in driving continued success. Talent management at the Company means, having the most skilled and energetic partners delivering their best in their current roles while getting ready for higher responsibilities.

DETAILS OF SIGNIFICANT CHANGES IN KEY FINANCIAL RATIOS AND NET-WORTH

| Particulars | As at 31 st March, 2020 | As at 31 st March, 2019 | % Change | Reasons |
|------------------------------------|---------------------------------------|---------------------------------------|----------------|--|
| Debtors Turnover Ratio | 12.64 | 10.14 | 24.65 | - |
| Days | 28.47 | 35.49 | 19.78 | |
| Inventory Turnover Ratio (Days) | 3.75 96.08 | 7.29 49.57 | 48.56 94.61 | Better utilization of inventory has resulted in the ratio to improve. |
| Interest Coverage Ratio | 3.62 | 5.35 | 32.34 | Profit has declined as the turnover has reduced, ultimately Interest coverage ratio has declined. |
| Current Ratio | 1.27 | 1.20 | 5.83 | - |
| Debt Equity Ratio | 0.32 | 0.36 | 11.11 | - |
| Operating Profit Margin | 9.92% | 10.69% | 1.68 | Profit has declined as the turnover has reduced, ultimately Return on Net worth has also declined. |
| Net Profit Margin | 3.53% | 4.80% | 24.48 | |
| Return on Net worth | 8.08% | 15.84% | 48.99 | |

INTERNAL CONTROL SYSTEMS & THEIR ADEQUACY

The Company has a strong and adequate internal control system suitable to its size and nature of business. We constantly upgrade our systems for incremental improvements. The Audit Committee of the Board regularly reviews our system. The systems ensure protection of assets and proper recording of transactions.

Internal audit is carried out by an independent chartered accountants' firm i.e. M/s Adusumilli and Associates on quarterly basis. Internal Auditors' reports are regularly placed before by the Audit Committee at its Meetings. It is a regular practice to review the issues raised by Internal Auditors and Statutory Auditors by the Audit Committee.

RESEARCH & DEVELOPMENT

Company has an existing Research & Development Laboratory of API's / intermediates / pharmaceuticals situated at Sanath Nagar, Hyderabad. Lab is well equipped with the latest and sophisticated equipment and machineries. The center is focused on technology transfer activities for API /intermediates and collaborations with customers globally

CAUTIONARY STATEMENT

Certain statements in this Management Discussion and Analysis report may be forward looking within the meaning of applicable securities law and regulations and actual results may differ materially from those expressed or implied. Factors that would make differences to Company's operations include competition, price realization, forex market, changes in government policies and regulations, tax regimes, economic development within India and the countries in which the Company conducts business and other incidental factors.

By Order of the Board
For SMS Lifesciences India Limited

Date: 27.07.2020
Place: Hyderabad

(Ramesh Babu Potluri)
Non-Executive Director
DIN: 00166381

(TVVSN Murthy)
Managing Director
DIN: 00465198