

Supriya Lifesciences Ltd

Recommendation	SUBSCRIBE		BACKGROUND																																																
Price Band	Rs 265-274		Company Overview																																																
Bidding Date	16-20 December		Supriya Lifesciences Ltd (SLL) is one of the key Indian manufacturers and suppliers of active pharmaceuticals ingredients (“APIs”), with a focus on research and development. As of October 31, 2021, the company had niche product offerings of 38 APIs focused on diverse therapeutic segments such as antihistamine, analgesic, anaesthetic, vitamin, anti-asthmatic and anti-allergic. It is consistently been the largest exporter of Chlorpheniramine Maleate and Ketamine Hydrochloride from India, contributing to 45-50% and 60-65%, respectively, of the API exports from India, between FY17 and FY21. SLL is among the largest exporters of Salbutamol Sulphate in India contributing to 31% of the API exports from India in FY21 in volume terms. Company’s products were exported to 86 countries in FY21. The business operations are supported by a modern manufacturing facility located in Parshuram Lote, Maharashtra having reactor capacity of 547 KL/ day. In addition, the Company has acquired a plot of land, admeasuring 12,551 sq.mt, near the present manufacturing facility, wherein the Company intends to expand its manufacturing infrastructure. The manufacturing facility has received approvals from USFDA, EDQM TGA-Australia, KFDA-Korea, PMDA-Japan, NMPA (previously known as SFDA)- China, Health Canada.																																																
Book Running Lead Manager	Axis, ICICI Sec.																																																		
Registrar	LinkTime																																																		
Sector	Pharmaceuticals																																																		
Minimum Retail Application – Details at Cut off Price																																																			
Number of Shares	54																																																		
Application Money	14796																																																		
Discount to retail	NIL																																																		
Payment Mode	ASBA, UPI																																																		
Consolidated Financials (Rs Cr)	FY20	FY21																																																	
Total Income	312	385																																																	
EBITDA	98	167																																																	
PAT	73	124																																																	
Valuations*	Lower Band	Upper Band																																																	
Market Cap (Rs cr)	2133	2205																																																	
EPS	15.4	15.4																																																	
BV/share	33	33																																																	
P/BV	7.9	8.2																																																	
PE	17.2	17.8																																																	
<i>*FY21 numbers, diluted equity</i>																																																			
Post Issue Shareholding Pattern																																																			
Promoters	68.2%																																																		
Public	31.8%																																																		
Offer structure for different categories																																																			
QIB (Including Mutual Fund)	75%																																																		
Non-Institutional	15%																																																		
Retail	10%																																																		
Post Issue Equity Capital (Rs cr)	16.1																																																		
Issue Size (Rs cr)	677-700																																																		
Face Value (Rs)	2																																																		
<p>Runjhun Jain Assistant Vice President (+91 22 6273 8177) runjhun.jain@nirmalbang.com</p>																																																			
			Objects of the Issue																																																
			The issue of Rs 700 cr includes offer for sale of Rs 500 cr and Rs200 cr fresh issue which would be utilized to fund capex, repayment of borrowings																																																
			Investment Rationale																																																
			<ul style="list-style-type: none"> • Leadership Position Across Key and Niche Products • Backward Integrated • Geographically Diversified Revenues • Quality Manufacturing Capabilities • Consistent strong financial performance 																																																
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			The company has grown revenues at CAGR of 22% between FY18-21 in-line with industry average however EBITDA has grown at 97% during the same period, double the industry average. SLL has strong return ratios. We have compared Supriya with almost all the leading listed API players and found it quite attractive. Given the strong leadership in selected niche regions along with the healthy financials and attractive valuations we recommend “Subscribe” .																																																
			<table border="1"> <thead> <tr> <th>Financial Snapshot</th> <th>FY19</th> <th>FY20</th> <th>FY21</th> <th>H1FY22</th> </tr> </thead> <tbody> <tr> <td>Revenues</td> <td>278</td> <td>312</td> <td>385</td> <td>225</td> </tr> <tr> <td>%growth*</td> <td></td> <td>12%</td> <td>24%</td> <td></td> </tr> <tr> <td>EBIDTA</td> <td>65</td> <td>98</td> <td>167</td> <td>93</td> </tr> <tr> <td>% margins</td> <td>23.3%</td> <td>31.6%</td> <td>43.4%</td> <td>41.6%</td> </tr> <tr> <td>Adj. PAT</td> <td>39</td> <td>73</td> <td>124</td> <td>66</td> </tr> <tr> <td>% margins</td> <td>14.2%</td> <td>23.6%</td> <td>32.1%</td> <td>29.3%</td> </tr> <tr> <td>EV/EBIDTA @ Rs 274</td> <td></td> <td></td> <td>13.3</td> <td>11.8</td> </tr> <tr> <td>P/E @ Rs 274</td> <td></td> <td></td> <td>17.8</td> <td>16.7</td> </tr> </tbody> </table>				Financial Snapshot	FY19	FY20	FY21	H1FY22	Revenues	278	312	385	225	%growth*		12%	24%		EBIDTA	65	98	167	93	% margins	23.3%	31.6%	43.4%	41.6%	Adj. PAT	39	73	124	66	% margins	14.2%	23.6%	32.1%	29.3%	EV/EBIDTA @ Rs 274			13.3	11.8	P/E @ Rs 274			17.8	16.7
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Company Overview

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Presence of 10+ yrs in large and growing markets		
Anti-histamine & Anti-allergy	Cetirizine Dihydrochloride	Market Size - <u>\$3.5bn</u>
	Diphenhydramine Hydrochloride	
	Chlorpheniramine Maleate	8-10% CAGR FY20-25
	Pheniramine Maleate	
Pain Management	Ketamine Hydrochloride	Market Size - <u>\$7.8bn</u> 5% CAGR FY20-25

Company’s products were exported to 86 countries in FY21. The customers include global pharma companies such as Syntec Do Brasil LTDA, American International Chemical Inc and AT Planejamento E Desenvolvimento De Negocios Ltda, with whom the company has business relationship for over nine years. The products are registered with various international regulatory authorities such as USFDA, EDQM, NMPA (previously known as SFDA), KFDA, PMDA, TGA and Taiwan FDA. As of October 31, 2021, it has filed 14 active DMFs with USFDA and eight active CEPs with EDQM, for thier API products in therapeutic areas such as antihistamine, analgesic, anaesthetic, vitamin, anti-asthmatic and anti-allergic

The business operations are supported by a modern manufacturing facility located in Parshuram Lote, Maharashtra having reactor capacity of 547 KL/ day. In addition, the Company has acquired a plot of land, admeasuring 12,551 sq.mt, near the present manufacturing facility, wherein the Company intends to expand its manufacturing infrastructure. The manufacturing facility has received approvals from USFDA, EDQM TGA-Australia, KFDA-Korea, PMDA-Japan, NMPA (previously known as SFDA)- China, Health Canada.

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Investment Rationale**Leadership Position Across Key and Niche Products**

Company's core strength lies in identifying generic molecules (off-patent) in its existing therapeutic segments which fits in to its existing chemistry and production infrastructure and the ability to develop the product and scale-up production.

SLL has niche product offerings of 38 APIs focused on diverse therapeutic segments such as antihistamine, analgesic, anaesthetic, vitamin, antiasthmatic and anti-allergic. It has consistently been the largest exporter of Chlorpheniramine Maleate and Ketamine Hydrochloride from India, contributing to 45-50% and 60-65%, respectively, of the API exports from India, between FY17 and FY21. It is among the largest exporter of Salbutamol Sulphate from India in FY21 in term of volume. Further, the Company contributed to 25-30% of exports of Vitamin B2 (Riboflavin, Lactoplavin) and its salts from India in terms of volume.

Exports - Rs cr	Chlorpheniramine Maleate	Ketamine	Salbutamol Sulphate	Vitamin B2 (Riboflavin, Lactoplavin) and its salts
FY21				
India Total	80.49	162	80.74	48.81
Supriya contri	57.9	95.11	30.43	12.98
% contri	71.9%	58.7%	37.7%	26.6%
FY20				
India Total	66.52	109.19	40.02	48.81
Supriya contri	49.28	70.34	14.85	12.98
% contri	74.1%	64.4%	37.1%	26.6%
FY19				
India Total	47.11	75.45	45.6	58.52
Supriya contri	39.85	49.2	14.83	16.14
% contri	84.6%	65.2%	32.5%	27.6%

SLL is in the process of further diversifying the product portfolio with strong product pipeline which includes Dextromethorphan Hydrobromide (decongestant), Pentoxifylline (xanthine derivatives), (S)-Ketamine Hydrochloride (analgesic/ anti-pyretic/ anaesthetic), Phenylephrine Hydrochloride (decongestant), Allopurinol (antigout) and Benfotiamine (diabetic neuropathy). ***A diversified product portfolio diminishes the risk associated with the dependence on any particular therapeutic area.***

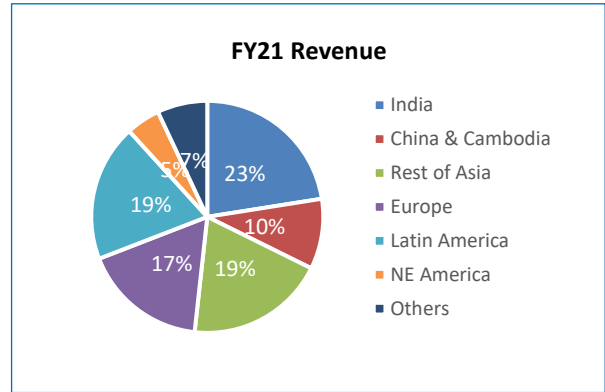
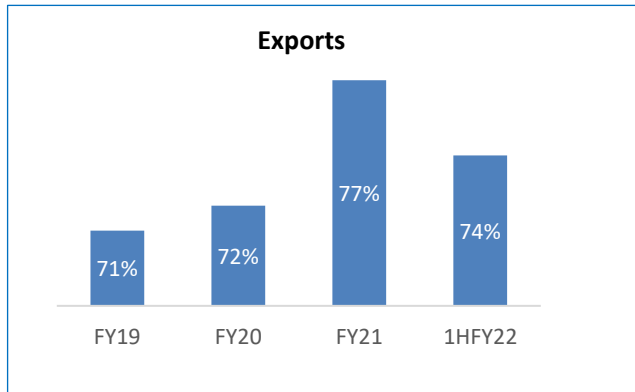
Backward Integrated

Backward integration of API ensures steady supply of intermediates. 12 of the existing products are backward integrated, which contributed 67.14% of the total revenue for FY21, thereby resulting in increased margins and lesser dependence on suppliers for key starting material. With the ability to meet intermediates and processes requirements in-house, company's integration model of business helps it to have sustainable business. It further protects it from relying on external sources for the raw materials, thereby reducing risk of unfavourable terms of supply such as high pricing and long timeline for delivery. Backward integration has enabled it to ensure a steady supply of intermediates at an equitable cost, avoiding any market fluctuations and to ensure quality and security of availability of essential raw materials. ***Its ability to produce key starting material is one the key strengths, resulting in cost competitiveness.***

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Geographically Diversified Revenues

The global pharmaceutical market can broadly be divided into regulated markets, semi-regulated and non-regulated markets. Supriya’s products were exported to 86 countries including (i) regulated markets such as USA, China, Japan, Germany, Spain, Indonesia, South Korea and Switzerland; and (ii) semi-regulated and non-regulated markets such as Brazil, Mexico, Chile, Taiwan, Malaysia; Bangladesh, South Africa, Kenya, Jordan and Egypt, through its own marketing and distribution network as well as by entering into distribution arrangements with pharmaceutical distributors in these markets.

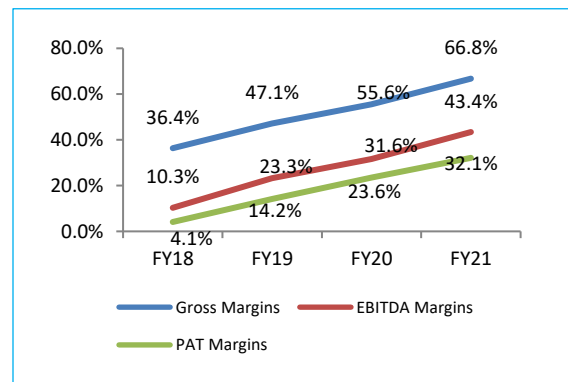
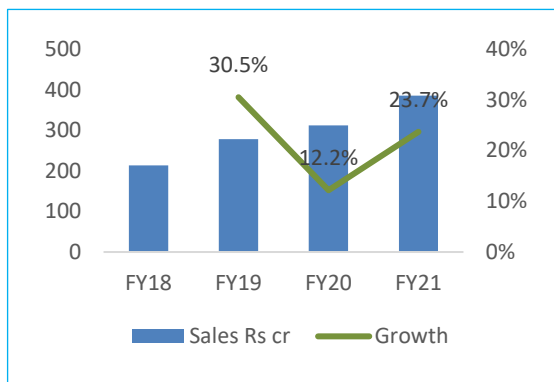


Quality Manufacturing Capabilities

Management believes quality is a key differentiator in any pharmaceutical business and have adopted uniform manufacturing standards to achieve standardized product quality for all its markets. The manufacturing capabilities range from development of simple molecules to highly complex chiral centre molecules with expertise in different class of reactions. Its manufacturing facility has received approvals from USFDA, EDQM TGA-Australia, KFDA-Korea, PMDA-Japan, NMPA (previously known as SFDA)- China, Health Canada.

Consistent strong financial performance

Supriya has delivered strong and consistent financial growth since FY18. It has a proven track record of operations of over 12 years and have a strong balance sheet as well as a stable cash flow profile. The company claims that they have had positive operating cash flows every financial year since incorporation.



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Risks and Concerns

- Product Concentration:** Supriya generates a significant portion of its revenue from the sale of a limited number of products. Top 10/5 products contributed 86% /66% in 1H FY22. The revenue from the sale of these products may decline as a result of increased competition, regulatory action, pricing pressures or fluctuations in the demand for or supply of such products.
- Adverse Rupee movement:** The company gets major portion of revenues from exports hence is vulnerable to various currencies' movement. Any adverse movement might impact the profitability of the company.
- Higher Compliance:** Being in a Pharmaceutical industry, the company is liable to obey the strict restrictions and procedures set by various regulatory agencies. Any lax in terms of execution might impact the business viability of the company.

Valuation and Recommendation

The bulk drug industry in India is ranked third-largest globally in terms of volume, behind China and Italy. Bulk drug manufacturing costs are significantly lower in India than in the regulated markets of the United States (US) and Europe. China is a major exporter of bulk drug intermediates globally as it enjoys competitive advantage due to government support, coupled with low power and labour costs. On the other hand, India is a preferred destination for the procurement of active pharmaceutical ingredients (APIs), especially in regulated markets, compared with China. This is on account of its advanced process chemistry skills, which aid the manufacture of bulk drugs and complex intermediaries.

The bulk drugs industry in India is highly fragmented with major presence of small unorganised players. Indian Bulk drug exports to grow at 8-9% CAGR (in dollar terms) from FY20-25 owing to government schemes and various other factors.

The company has grown revenues at CAGR of 22% between FY18-21 in-line with industry average however EBITDA has grown at 97% during the same period, double the industry average. SLL has strong return ratios. We have compared Supriya with almost all the leading listed API players and found it quite attractive

	Sales	Sales CAGR FY18-21	EBITDA CAGR FY18-21	D/E	Total Asset Turns	EBITDA Margins	ROE	PE	EV/EBITDA
Aarti Drugs	2155	20%	30%	0.3	1.8	20.3%	30.7%	18.3	12.4
Divis Labs	6969	21%	31%	-0.2	1.0	41.0%	21.3%	61.4	41.8
Solara	1617	46%	83%	0.2	0.8	23.9%	13.9%	18.1	11.2
Neuland	937	21%	43%	0.2	1.0	15.7%	10.3%	25.3	14.8
Glenmark Life	1885	16%	21%	0.3	0.6	31.4%	13.5%	18.7	12.5
Laurus Labs	4814	33%	55%	0.5	1.2	32.2%	37.8%	28.0	18.6
Supriya	385	22%	97%	0.5	1.7	43.4%	46.0%	17.8	13.3

Given the strong leadership in selected niche regions along with the healthy financials and attractive valuations we recommend **"Subscribe"**.

Supriya Lifesciences Ltd

FINANCIALS

P&L (Rs. Cr)	FY19	FY20	FY21	1HFY22
Net Revenue	278	312	385	225
% Growth	30%	12%	24%	
COGS	147	138	128	83
<i>% of Revenues</i>	<i>52.9%</i>	<i>44.4%</i>	<i>33.2%</i>	<i>37.0%</i>
<i>Gross Profit %</i>	<i>47.1%</i>	<i>55.6%</i>	<i>66.8%</i>	<i>63.0%</i>
Employee Cost	19	26	33	18
<i>% of Revenues</i>	<i>6.8%</i>	<i>8.2%</i>	<i>8.5%</i>	<i>7.9%</i>
Other expenses	47	49	57	30
<i>% of Revenues</i>	<i>17.0%</i>	<i>15.8%</i>	<i>14.8%</i>	<i>13.5%</i>
EBITDA	65	98	167	93
EBITDA Margin	23.3%	31.6%	43.4%	41.6%
Depreciation	5	6	7	5
Other Income	8	11	11	5
Interest	10	7	4	2
Share of PAT (Invst)				
Exceptional gain				
PBT	57	96	167	92
Tax	18	23	44	26
<i>Tax rate</i>	<i>31%</i>	<i>24%</i>	<i>26%</i>	<i>28%</i>
PAT	39	73	124	66
% Growth				
EPS (Post Issue)	4.9	9.1	15.4	8.2
Performance Ratios	FY19	FY20	FY21	1HFY22
EBITDA Margin (%)	23.3%	31.6%	43.4%	41.6%
PAT Margin (%)	14.2%	23.6%	32.1%	29.3%
ROE (%)	42.0%	49.2%	46.0%	39.4%
ROCE (%)	37.6%	45.2%	51.0%	46.2%
Net D/E (x)	0.9	0.5	0.1	0.0
Turnover Ratios	FY17	FY20	FY21	1HFY22
Debtors Days	78	61	69	68
Inventory Days	40	57	68	71
Creditor Days	57	57	48	45
Asset Turnover (x)	1.6	1.4	1.1	1.1
Valuation Ratios	FY19	FY20	FY21	1HFY22
Price/Earnings (x)		30.0	17.8	16.7
EV/EBITDA (x)		23.3	13.3	11.8
Price/BV (x)		23.5	8.2	6.6
Mkt cap/Sales (x)		7.1	5.7	4.9
EV/Sales (x)		7.3	5.8	4.9

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY19	FY20	FY21	1HFY22
Share Capital	15	15	15	15
Reserve & Surplus	79	135	254	320
Non Controlling Int	-	-	(0)	-
Networth	94	149	269	335
Total Loans	85	79	67	71
Deffered Tax Liab.	10	8	8	12
Other non-curr liab.	6	21	22	2
Trade payable	44	49	51	56
Other Current Liab	12	28	26	25
Total provisions	2	3	3	3
Total Current Liab.	58	80	80	84
Total Equity & Liab.	253	336	446	504
Fixed Assets & CWIP	120	138	179	184
Goodwill	-	-	-	-
Investments	0	0	0	0
Deff Tax Assets		-	-	-
Other non Curr. assets	0	0	0	0
Cash	2	2	43	79
Inventories	31	49	72	88
Debtors	60	52	74	84
Other Current assets	41	95	77	68
Total Assets	253	336	446	504
Cash Flow (Rs. Cr)	FY19	FY20	FY21	1HFY22
EBITDA	65	98	167	93
Provisions & Others	5	8	5	2
Op. profit before WC	70	106	173	96
Change in WC	(7)	37	(63)	(61)
Less: Tax	(14)	(27)	(30)	(18)
CF from operations	49	116	80	16
Addition to assets	5	(25)	(47)	(10)
(Purchase)/Sale of invst.	0	-	0	-
Div/Int Received	-	-	-	-
CF from Investing	5	(25)	(47)	(10)
Loans	(41)	(8)	(12)	1
Dividend Paid	-	(18)	(4)	-
Interest paid	1	(4)	1	1
Equity	(10)	-	0	-
CF from Financing	(50)	(29)	(15)	2
Net Change in cash	4	62	18	8
Cash at beginning	9	12	75	92
Exchange difference				
Cash at end	12	75	92	100

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