Initiating Coverage

Supriya Lifescience Ltd.

Jul 21, 2022

RETAILRESEARCH

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20 YEARS

Supriya Lifescience Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Pharmaceuticals	Rs 387	Buy in the band of Rs 385-392 & add more on dips of Rs 348	Rs 428	Rs 468.5	2 quarters

HDFC Scrip Code	SUPRIYALIFE
BSE Code	543434
NSE Code	SUPRIYA
Bloomberg	SUPRIYA IN
CMP Jul 20, 2022	387
Equity Capital (Rs cr)	16.1
Face Value (Rs)	2
Equity Share O/S (cr)	8.05
Market Cap (Rs cr)	3114
Book Value (Rs)	76
Avg. 52 Wk Volumes	521228
52 Week High	602
52 Week Low	292

Share holding Pattern % (Jun, 2022)	
Promoters	68.2
Institutions	16.3
Non Institutions	15.5
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

*** Refer at the end for explanation on Risk Ratings**

Fundamental Research Analyst

Kushal Rughani

kushal.rughani@hdfcsec.com

Our Take:

Supriya Lifescience Ltd. is a well-established manufacturer and supplier of active pharmaceuticals ingredients (API) with a focus on niche products with limited competition. It has a niche product basket comprising 38 APIs across diverse therapeutic segments. It is the largest exporter of Chlorpheniramine Maleate and Ketamine Hydrochloride from India and is also among the largest exporters of Salbutamol Sulphate from India.

Currently, Supriya is doing business with over 1200+ customers and has presence in more than 86 countries. Company has taken additional steps for business expansion around the globe especially in North America, Japan, Australia and New Zealand. Management guides for strong growth in the US business over the next 2-3 years.

Block D got operational in Q1FY22, the blended capacity utilization was lower at 47% during FY22. Company is setting up two R&D centres i) At Lote Parshuram to cater to lifecycle management and backward integration projects ii) At Ambernath to cater to new molecules and CMO/CDMO opportunities. Lote centre is expected to get operational by Q2FY23 while Ambernath centre may get operational by Q3FY23. These centres would help to develop identified APIs which will complement existing product profile.

Company intends to improve R&D capabilities, with a focus on capturing more high-value early mover advantage in key international markets. It plans to reduce customer concentration by penetrating existing products in different geographies by registering niche products and adding newer products that offer high volume potential from new R&D centers. Company has taken additional steps for business expansion around the globe especially in North America market, Japan, Australia and New Zealand.

Management sees good opportunities in CMO/CDMO space and has initiated discussion on these opportunities with big pharma and innovator companies to work as a partner for supply of products. Currently, the work is in progress on 5 projects including developing process in the laboratory for these projects. With the new capacity being setup at Ambernath, more CMO/CDMO opportunities are expected to be pursued.

Valuation & Recommendation:

Supriya is well placed with its leadership position in niche products, its focus on registering existing products in regulated markets. Its backward integrated facilities with geographical diversification should help drive growth momentum in the coming years. We remain

positive on the company on the back of strong position in top products and expected launch of new products, which is expected to drive growth in the next 2 years. Company has guided for strong double digit revenue growth along with margin in the band of 38-40% in the next 2 years.

We expect the company to register revenue, EBITDA, and PAT CAGR of 22.7%, 20% and 19% respectively over FY22-24E. At the CMP, the stock trades at 17x/14.5x of FY23E/FY24E EPS. We feel investors can buy the stock in the band of Rs 385-392 and add more on declines to Rs 348 (13x FY24E EPS) for base case target of Rs 428 (16x FY24E EPS) and bull case target of Rs 468.5 (17.5x FY24E EPS) over the next two quarters.

Financial Summary

Particulars (Rs cr)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY19	FY20	FY21	FY22	FY23E	FY24E
Total Revenues	181	132	37.2	122	49.0	278	312	391	530	656	799
EBITDA	75	67	12.1	43	75.3	65	99	173	214	262	309
Depreciation	3	2	52.9	3	0.0	6	6	7	10	14	18
Other Income	4	2	153.3	1	347.1	8	11	5	8	6	7
Interest Cost	1	1	-12.0	1	-4.3	10	7	4	4	7	9
Tax	29	17	70.8	0.5	5983.3	18	23	44	55	65	75
APAT	46	49	-4.7	40	16.7	39	74	124	152	183	215
EPS (Rs)						5.4	10.0	16.9	18.9	22.8	26.8
RoE (%)						48.7	60.5	59.2	34.4	26.0	24.1
P/E (x)						71.9	38.5	22.9	20.5	17.0	14.5
EV/EBITDA (x)						43.8	28.8	16.4	13.3	10.8	9.2

(Source: Company, HDFC sec)

Q4FY22 result update

For Q4FY22, Total revenue grew by 37.2% YoY and 49% QoQ to Rs 181.2cr. For FY22, total revenue increased 35.6% YoY at Rs 520cr. EBITDA margin in Q4 slipped 940bps YoY and improved 620bps QoQ to 41.5%. Higher input costs dented margins. Gross margin slipped sharply at 60.9% (-470bps QoQ and 1660bps YoY). Other expenses were down 13% YoY at Rs 22.4cr. PBT increased 15.2% YoY at Rs 75.5cr. PAT declined 4.7% YoY but was up 16.7% QoQ to Rs 46.2cr. PAT was lower on account of lower provision of deferred taxes in earlier quarter.

Key takeaways from Concall

- Supriya continued to hold the leadership position in its top-3 products Ketamine Hydrochloride, Salbutamol Sulphate and Chlorpheniramine Maleate (CPM) during FY22. Large part of growth was driven by backward integrated products from Anti-histamine, Anesthetic and Vitamins in Q4FY22.
- Revenue share from regulated markets improved from 34% to 53% for FY22. Increased penetration in European and LatAm markets supported overall growth.
- Blended utilization levels for all 4 blocks were at 47% in FY22.
- Company has acquired 80,000 sq mt. from MIDC at Isambe Industrial Park dedicated for Pharma API.
- The delay in import shipments was off-set by built-up in inventory of raw materials to ensure smooth operations. Company increased stock levels of solvents to minimize impact of cost increase during the quarter.
- Increase in domestic sales and sales to Latin American countries in Q4FY22 where in the credit terms are higher, has led to higher receivables.
- It plans to reduce customer concentration by penetrating existing products in different geographies by registering niche products and adding newer products that offer high volume potential from new R&D centers.
- Company has taken additional steps for business expansion around the globe especially in North America market, Japan, Australia and New Zealand.
- Management sees good opportunities in CMO/CDMO space and has initiated discussion on these opportunities with big pharma and innovator companies to work as a partner for supply of products. Currently, the work is in progress on 5 projects including developing process in the laboratory for these projects. These developments are at advanced stage and may result in agreement soon. If these initiatives take off, Supriya may have to set up additional capacities in future.
- With the new capacity being setup at Ambernath, more CMO/CDMO opportunities are expected to be pursued.
- Currently, two new R&D centres are being built, one in Lote for product lifecycle management and the other in Ambernath with a pilot plant for new molecules and CMO/CDMO.
- It has already started the work on ‘E Block’ at Lote Parshuram with capacity of 340KL to replace old block with 145KL capacity.
- Earlier, Company used to procure 30-40% KSM (Key starting materials) from China, however the dependency has now come down significantly.
- Company expects higher growth in revenue from semi-regulated markets, as in FY22.
- Management guides for strong growth in the US business over the next 2-3 years.
- Company may look for further capex after 9-12 months (i.e. by Jun 2023)
- Management said that the biggest risk to the growth of business could be regulatory compliance risk. Company doesn’t foresee pricing risk in products in which it is operating into.

Business and its outlook

Supriya Lifescience is into manufacturing of APIs since its inception. Company has healthy share in the global market for its key products and is one of the leading companies producing Ketamine Hydrochloride, Salbutamol Sulphate and Chlorphemiramine Maleate (CPM). Company started manufacturing the key products almost 8 years ago, and revenue from top products have grown strongly in the last 3-4 years. Major portion of the manufacturing is backward integrated, it has resulted in reduced dependence on external sources for raw materials along with a steady supply, without the impact of market fluctuations. Consequently, Supriya has gained cost competitiveness in the backward integrated products.

The company's revenues are export dominated with exports accounting for 76% of the total sales in FY22 (72% in FY20). The sales are geographically diversified and cater to the regulated, semi regulated and non-regulated markets. Company derived 30% of revenue from Europe, 24% from India, 27% from Asia (ex-India), 12% from Latin America, 3% from North America and the balance from others.

The product pipeline includes Dextromethorphan Hydrobromide & Phenylephrine Hydrochloride (Decongestant), Pentoxifylline (Xanthine derivatives), (S)-Ketamine Hydrochloride (Analgesic/Anti-pyretic/Anaesthetic), Allopurinol (Antigout) and Benfotiamine (Diabetic neuropathy). Some of the new products have already been launched in FY22 and has started complementing with the existing therapies like Decongestant molecules goes in combination with anti-seminal, anti-allergy.

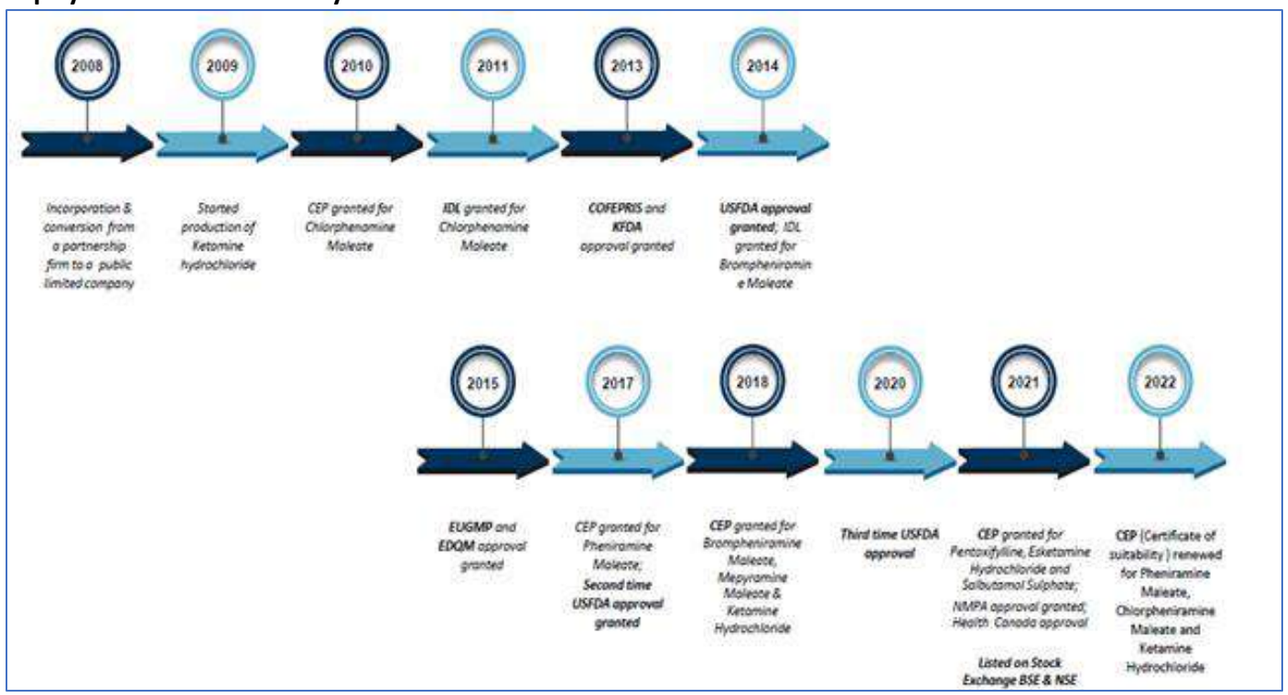
Supriya has started the capex for 'E' Block and the work is progress at Lote, Parshuram with capacity of 340KL to replace old block with 145KL capacity. A new manufacturing block with capacity of 70KL along with a new R&D facility with Pilot plant is also being setup at Ambernath.

As of Mar,2022, Supriya has filed 14 active DMFs with the US FDA and 8 active CEPs with EDQM for their API products in therapeutic areas such as anti-histamine, analgesic, anaesthetic, vitamin, anti-asthmatic and anti-allergic. They will continue to focus on developing and filing of more DMFs in the area of niche and differentiated products which provide better growth opportunities and would help in developing business.

Till FY21 multi-product facility (3 blocks) were optimally utilized at 71%. In Q1FY22, Block D got operational. It takes about 12-18 months for any new block to reach its peak capacity. Since the 4th block got commissioned in FY22, the blended capacity utilization was lower at 47%. For regulated market, regulatory team is registering the products and filing DMFs. Sales team is in discussion with new customers to qualify Supriya as source and started sending samples and supplying APIs for their validation of products.

Company has R&D team of 26 scientists as on Mar, 2022. It spends 0.5-1% of revenue in R&D. It will continue to focus on developing and filing more DMFs across the therapeutic areas, which could provide better growth opportunities.

Supriya Lifescience: Journey



Key Triggers

Promoters having more than three decades of experience in the pharmaceutical business; backward integrated business model

Supriya Lifescience is headed by Dr. Satish Wagh and his technical expertise in the sector has led to diversify its product portfolio and gain a strong foothold in the domestic and international markets. Company has healthy share in the global market for its key products and is one of the leading players producing Ketamine Hydrochloride, Salbutamol Sulphate and Chlorphemiramine Maleate (CPM). Major portion of the manufacturing is backward integrated, it has resulted in reduced dependence on external sources for raw materials along with a steady supply, without the impact of market fluctuations. Consequently, Supriya has gained cost competitiveness in the backward integrated products. Its continuous focus towards enhancement and expanding its R&D facility has played a key role in establishing its position. Company's core strength lies in early identification of molecules going off patent in its existing therapeutic segments keeping in mind its existing chemistry and production infrastructure and ability to develop product and scale-up the production. Supriya

manufactures and supplies 38 APIs that find application in therapies like antihistamine, analgesic, anesthetic, vitamin, anti-asthmatic and anti-allergic etc. Top-10 customers account for 47% of revenue as on FY22. Its products are exported to 86 countries including both regulated as well as semi/non-regulated markets. The products are registered with various international regulatory authorities such as US FDA, EDQM, NMPA (previously known as SFDA), KFDA, PMDA, TGA and Taiwan FDA. In May-2022, the company's API facility at Lote (Ratnagiri), Maharashtra successfully completed audit by EDQM, France and AIFA, Italy.

Expanding presence into existing markets and entry into new markets

Supriya intends to continue to grow their sales in existing geographies in Latin America, Europe, Asia and Middle East and North America to grow their market share in these markets by increasing product portfolio in these markets and by leveraging their existing relationships with customers.

The manufacturing facility located in Parshuram Lote, Maharashtra which is spread across 23,806 sq.mt and has reactor capacity of 547 KL/day; the company has 4 manufacturing blocks which are segregated therapeutic segment wise. The 4th block commenced operation in May, 2021. Their manufacturing capabilities range from development of simple molecules to highly complex chiral centre molecules with expertise in different class of reactions.

Strong sales growth along with improved profitability

Total revenue grew at 24% CAGR during FY19-22, led by strong sales volume growth across key geographies. Company had reported very strong margin of 44% in FY21 and it stood at 40.4% in FY22 due to change in product mix along with higher contribution from regulated markets. The sales to the regulated markets have gone up to 53% of total sales in FY22 from 33% in FY20. The sales realisation was mainly contributed by the three major products, Ketamine Hydrochloride, Salbutamol Sulphate and Chlorpheniramine Maleate (CPM), the manufacturing of which is backward integrated. These three products contributed to around 55% of the total sales in FY21 (42%/48% in FY19 and FY20 respectively).

Backward Integration of key molecules augurs well from cost competitiveness and availability perspectives

Supriya's manufacturing capabilities range from development of simple molecules to highly complex molecules with expertise in different class of reactions. It has implemented backward integration for its API products to control over the supply chain process (intermediates). 12 out of its total existing products are backward integrated, which contributed 68% of its total revenue for FY22. It helps the company to have sustainable business and reduce dependency on external sources. This ensures quality check and security of availability of essential raw materials which acts as one of its key strengths. Company would continue to grow sales in existing geographies in Latin America, North America, Europe, Asia and Middle East, and to grow market share in these markets by increasing their product portfolio in these markets and by leveraging their existing relationships with customers. Its dependence on China for raw materials has fallen to 32%.

De-risking of portfolio and scale up of molecules on cards, Capex to help in organic growth

Company is further diversifying its product portfolio with strong product pipeline. Focus would mainly remain to eliminate the risk associated with dependence on few APIs. Some of the new products have already been launched in FY22 and has started complementing with the existing therapies like Decongestant molecules goes in combination with anti-seminal, anti-allergy. Supriya has filed 14 active DMFs with the US FDA and 8 active CEPs with EDQM for their API products in therapeutic areas such as antihistamine, analgesic, anaesthetic, vitamin, anti-asthmatic and anti-allergic. It will continue to focus on developing and filing of more DMFs in the area of niche and differentiated products which provide better growth opportunities and would help in developing its business. Supriya has started capex for 'E' Block and the work is in progress at Lote, Parshuram with capacity of 340 KL to replace old block with 145KL capacity. A new manufacturing block with capacity of 70KL along with a new R&D facility with Pilot plant is also being set up at Ambernath. Scale up of the newer products would be coming from the new block as total capacity will increase from the current 547KL to 810KL by Q1FY24. Management is taking timely steps to acquire land and set up units to ensure organic growth over time. The capex over the next two years may cost Rs.200-250 cr and will be funded by issue proceeds and/or internal accruals.

Products & Details

Product	Therapeutic Area	Certifications
Chlorpheniramine Maleate (CPM)	Antihistamine	EDQM, US DMF, CEP, Health Canada, EDMF, NMPA China
Brompheniramine Maleate (BPM)	Antihistamine	US DMF, CEP, EDMF, NMPA
Pheniramine Maleate	Antihistamine	US DMF, CEP, EDMF, NMPA
Dexchlorpheniramine Maleate	Antihistamine	US DMF, EDMF
Mepyramine Maleate	Antihistamine	US DMF, CEP, EDMF
Ketamine Hydrochloride	Analgesic/Anesthetic	US DMF, CEP, Canadian DMF, EDMF
Tramadol Hydrochloride	Analgesic/Anesthetic	Korean FDA, EDMF
Riboflavin 5 - Phosphate Sodium	Vitamin	US DMF, EDMF, CEP applied
Salbutamol Sulphate	Anti-asthamatic	EDMF, CEP
Cetrizine Dihydrochloride	Anti-allergic	EDMF
Diphenydramine Hydrochloride	Anti-allergic	EDMF, US DMF
Bupropion Hydrochloride	Smoking cessation	US DMF
Bisoprolol Fumarate	Anti-Hypertensive	EDMF, US DMF
Methylcobalamine	Vitamin B12	US DMF, KFDA

Key Molecules

Molecule	Global (MTPA)	Supriya (MTPA)
Dextromethorphan Hydrobromide	1406	250
Pentoxifylline	3798	300
S-Ketamine Hydrochloride	5	2
Phenylephrine Hydrochloride	430	60
Allopurinol	1871	300
Benfotiamine	170	60

No. of APIs under pipeline

Category	API	Status
US DMF	6 API	submitted
CEP	2 API	granted
US DMF	1 API	submission under progress
CEP	2 API	Assessment under progress
CEP	2 API	submission under progress

IPO Update

In Dec-2021, Supriya Lifescience came out with an IPO of 2.55cr equity shares at Rs 274 per share. Fresh issue was of Rs 200cr and offer for sale by the promoters of Rs 500cr. Company raised Rs 92cr to fund capex requirement, while Rs 60cr was for repayment/pre-payment of borrowings availed by the company and the balance for general corporate purposes. As on Mar-2022, the company has utilized Rs 85cr (Rs 60cr borrowing repayment, Rs 10cr for capex and Rs 15cr for general purpose). Post IPO, promoter and its group held 68.2% stake in the company.

Demand drivers for Indian bulk drugs segment

Supply chain disruptions in China to bode well

China is facing lot of issues in terms of supplying bulk drugs/API to its customers since the coronavirus pandemic breakout. This has led to constant rise in the prices of these drugs. Even though, supply from China has resumed, it is having quality issues in recent times which has helped India to gain competitive edge in the sector.

Environmental crack down led to China + 1 strategy

The manufacturing players in China got largely affected from 2017 due to its environmental crack down. The 'Blue sky' policy forced many industrial parks and chemical companies to shut their units either temporarily or permanently.

This incident impacted the global pharma industry. This not only led to shortage of raw material and API supply but also pushed the prices northwards for the global pharma industry. Thus, India now stands to benefit from China plus one strategy of global pharmaceutical players. Many global players have renewed their interests for raw material procurement from India. Increasing enquiries and acceptance for India's products from global innovators makes domestic API manufacturers likely to be the second source and gradual shift from China to India.

India has highest number of US FDA approved facilities outside the US and consistently maintained leadership in drug master file (DMF) submissions. This proves capability of Indian players to meet required export quality standards for regulated markets.

Industry Outlook

Anti-histamine and anti-allergy therapeutic areas is expected to grow at 8-10% between 2020 and 2025

Anti-histamine and anti-allergy therapeutic areas is estimated at US$ 3.5 billion in fiscal 2020 growing at 8% CAGR between 2015 and 2020. It is expected to grow at 8-10% CAGR to reach US$ 4.2 billion by 2025. Geographically, the global antihistamines market can be segmented into US, Europe, Asia Pacific and Middle East & Africa. US is the largest market globally due to rising prevalence of allergy rhinitis and rising demand for diagnosis and treatment of allergic disease. According to the American College of Allergy Asthma and Immunology, allergic asthma, food allergy and eczema are the most common types of allergies found in the US.

Anti-histamine segment is expected to grow at a healthy growth rate due to increase in allergies and other diseases from changing lifestyle and demand for new drugs for the treatment of these diseases. According to the WHO, allergies are the fourth largest global pathology condition after cancer, AIDS, and cardiovascular diseases. It is gaining traction from a number of factors such as the presence of vast unmet medical needs, growing prevalence of asthma and allergic rhinitis along with high consumption of tobacco and an upsurge in allergies as a result of environmental pollution.

The major key factors that will help drive the growth in global allergy treatment market is due to significant increase in the prevalence of allergic diseases, rise in preferences toward OTC drugs for allergy treatment, growing elderly population, growing incidences of chronic diseases such as asthma and surge in self-medication in consumers. Furthermore, increasing number of people are suffering from dust allergies, pollen allergies are some other factors expected to trigger the growth of the global target market over the forecasted period.

Increased usage of biosimilars will be key monitorable for growth of anti-allergy pharmaceutical market. Stringent drug regulatory approval is another key monitorable factor for global allergy treatment market.

Rising interest in personal health and well-being is driving demand for vitamins

The consumers are increasingly shifting towards including vitamins and supplements in their daily routine due to fast-developing interest as well as awareness over personal health and well-being.

Micronutrients are vitamins and minerals which the body needs in very small amounts but their impact on a body's health are critical. Deficiency in any one of them can cause severe and even life-threatening conditions.

Global vitamins market is estimated at US$ 1.5 billion in 2020. The market grew at a CAGR of 6% between 2015 and 2020. Growth in the vitamins market was marked by increased awareness about nutraceuticals benefits, increased prevalence of vitamin deficiencies due to dietary changes. Increased interest and concerns over personal health and well-being have resulted in consumers to incorporating vitamins and supplements as part of their daily routine.

The global vitamins market has been segmented largely based on type of vitamins as vitamin B, vitamin C, vitamin E and others. According to WHO, in 2018, more than 2 billion people were suffering from micronutrient deficiencies, thus leading to consumption of some or other vitamins. Moreover, the growing birthrates and senior citizens in developing countries is leading to growth of pediatric and calcium vitamins.

Distribution channel, such as hypermarket, supermarket, mass merchandise, specialty stores and other medical stores are contributing to rapid penetration of vitamin products. OTC channel accounted for the largest revenue share of nearly 75% in 2020 and is expected to witness steady growth moving ahead on account of rising consumer awareness regarding the health benefits of dietary supplements. Supermarkets/hypermarkets contribute significantly to the sales of dietary supplements in Europe and North America owing to higher prevalence.

Anti-Asthmatic / respiratory therapeutic area is expected to grow at 7% between 2020 and 2025

Global anti-asthmatic therapeutic area API market is estimated at US$ 2 billion in 2020 with a CAGR of 5.5% from 2015 to 2020. Growth in the market was supported by rise in incidence of asthma among global population, entry of generic drugs for key patented drugs and healthcare spending rise in APAC region. Globally North America is the largest market for anti-asthma drugs. Europe is the second-largest market for anti-asthma drugs. The developing region especially Asia Pacific is accounting for major newer cases due to greater screening and better health care facilities distribution. However, the developing regions market particularly Asia Pacific will be the fastest growing and will be the key to the future. The anti-asthmatic therapeutic area API market is expected to clock ~7% CAGR between 2020 and 2025 driven by rise in prevalence of asthma, new products and treatment introduced in the market and growth of generics drugs in anti-asthmatic area.

Asthma is one of the major non-communicable diseases. It is a chronic disease of the air passages of the lungs which inflames and narrows them. According to the Centers for Disease Control and Prevention (CDC), 1 in 12 people have asthma. Asthma is the most common non-communicable disease.

More than 25 million Americans have asthma with 8 percent of adults and 7 percent of children suffering from asthma. Number of asthmatic patients are increasing on account of increased environment pollution and particulate matter and unhealthy sedentary lifestyles.

Anti-asthma drugs market is driven by large number of asthma patients, advantages of modern drug therapy, and potential of biologics. Also, market is witnessing rise in demand for asthma drugs due to COVID-19.

Increasing number of new product launches. New drugs are introduced in asthmatic therapy for improvement in treatment and reduce dependence on inhaler. In Sept 2020, FDA approved Trelegy Ellipta (GSK plc.) as the first once-daily single inhaler triple therapy for the treatment of both asthma and COPD in the US.

CDMO segment

India is becoming a preferred destination for outsourcing the pharmaceutical activities across pharma value chain. Global pharmaceutical players are continuously witnessing cost pressures and looking for ways to shorten time to market. So, the industry is looking for established CDMO partners, particularly in Asian markets such as India and China. China may not be the most preferred partner for CDMO outsourcing on account of regulatory headwinds in China, closure of certain API and chemical companies on account of environment pollution, and political confrontations with the developed economies of the world. Indian CDMO companies over the last decade have demonstrated their capabilities on the global platform and are well-positioned to benefit from increased R&D outsourcing in the pharmaceutical industry.

Risks & Concerns

- Company faces product concentration risk as top-5 products contribute major portion of their revenue.
- Any delay in development and commercialization of newer products would impact future growth prospects of the company.
- Company's inability to effectively utilize its manufacturing capacities could have an adverse effect on the business.
- Development of alternate products for treatment of these therapies might impact the overall business.
- Large fluctuations in foreign exchange rate may impact the company as more than 70% of revenue come from exports sales.
- Company derives large part of revenues from export markets, and being a pharma player, it is imperative to secure approvals from regulatory bodies across the globe. Any adverse action from regulatory authorities would hinder its growth prospects.

- Company derived around 48% of revenue from Top-10 customers. Though the company has long standing relationships with its key customers, if the company loses any of these clients, then it may impact overall performance.
- Supriya has molecules in mature therapies including anti-histamine, analgesic/anesthetic therapies and others, which exposes it to competitive environment. Among the segments, anti-histamine, analgesic/anesthetic therapies accounted for 57% of total sales in FY21. However, Company is expected to diversify its product portfolio gradually by FY24 owing to planned new launches. Supriya deliberately chooses products which are mature and where demand is not likely to taper off soon. Also, the company avoids products that have recently gone off patent to avoid the price wars.
- It has a working capital-intensive nature of operations. It is because of the company's decision to stock raw materials and finished goods in view of the uncertainty. Its inventory days in the past three years remained within the range of 55-60days and debtor days within 70-75 days.

Company Background

Established in 1987 as a partnership concern under the name Supriya Chemical, it was later reconstituted as a public limited company in 2008 and renamed as Supriya Lifescience Ltd. Company manufactures and exports various APIs across therapeutic areas. Its manufacturing unit is in Ratnagiri district of Maharashtra with a current annual production capacity of around 1,300 MT, while its registered office is in Mumbai. The company has its own R&D unit located at the manufacturing site, recognised by the Department of Scientific and Industrial Research (DSIR) which is a part of the Ministry of Science and Technology. The company holds World Health Organisation (WHO) Good manufacturing practice (GMP), EU GMP, European Directorate for the Quality of Medicines & HealthCare (EDQM), US Food and Drug Administration Authority (FDA), Korean FDA, Mexican FDA certifications for manufacturing various bulk drugs. The product portfolio includes over 38 products and it has a global footprint that extends across 86 countries.

Drug master files (DMF)

Since a significant share of the bulk drugs manufactured in India are exported to regulated markets such as the US and Europe, the exporting companies must comply with the regulations of those regions. A drug master file (DMF) is a document provided to the respective regulatory agency by a bulk drug manufacturer, containing detailed confidential information about the facilities, processes, or articles used for manufacturing such as for processing, packaging, storing the bulk drug and the cGMP status of the bulk drug. In Europe, this document is known as European Drug Master File (EDMF) or an Active Substance Master File (ASMF) and in the US, it is termed a Drug Master File (DMF).

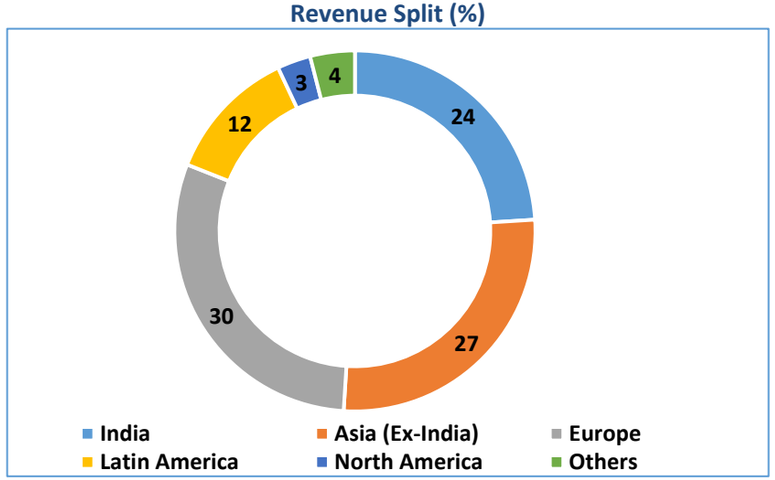
Supriya Lifescience Ltd.

Peer Comparison

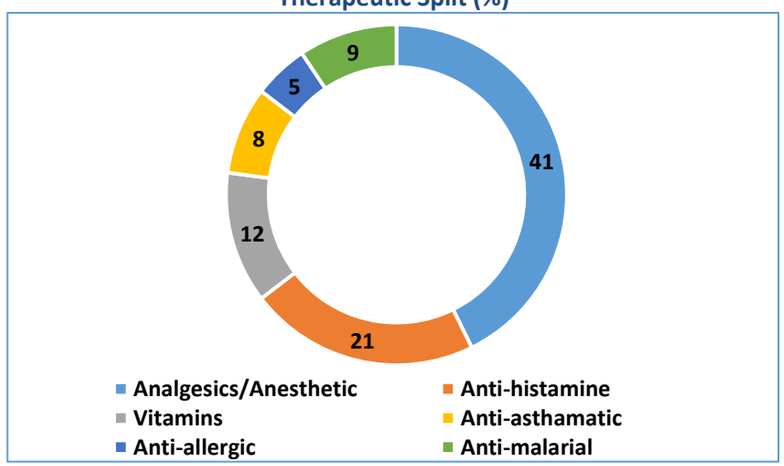
Company	Mcap (Rs cr)	Revenue				EBITDA Margin				PAT				RoE			
		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Supriya Life	3114	391	530	656	799	44.3	40.4	39.9	38.7	124	152	183	215	59.2	34.4	26	24.1
Granules India	7640	3238	3765	4299	4910	26.4	19.3	20.1	21.7	549	413	478	588	19.5	17.0	17.5	19.0
Aarti Drugs	4180	2155	2489	2899	3478	20.4	13.4	15.3	17.0	280	205	254	363	23	20.5	22.0	25.8
Neuland Labs	1714	937	951	1063	1265	15.7	15.1	15.8	16.6	81	64	82	108	7.5	8.3	12	11.8

Company	EV/EBITDA				P/E			
	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Supriya Life	16.4	13.3	10.8	9.2	22.9	20.5	17.0	14.5
Granules India	9.8	11.6	9.7	7.9	13.9	18.5	16.0	13.0
Aarti Drugs	10.9	14.4	10.8	8.1	14.9	20.4	16.5	11.5
Neuland Labs	12.9	13.2	11.3	9.0	21.2	26.8	20.9	15.9

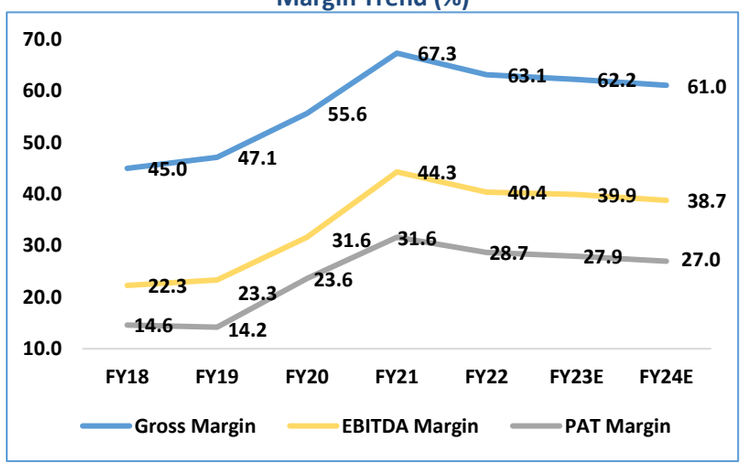
Revenue Split (%)



Therapeutic Split (%)



Margin Trend (%)



(Source: Company, HDFC sec)

Supriya Lifescience Ltd.

HDFC securities
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20 YEARS

Income Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Net Revenue	312	391	530	656	799
Growth (%)	12.2	25.5	35.5	23.8	21.7
Operating Expenses	213	218	316	394	489
EBITDA	**99**	**173**	**214**	**262**	**309**
Growth (%)	52	75.8	23.6	22.4	18.1
EBITDA Margin (%)	31.6	44.3	40.4	39.9	38.7
Depreciation	6	7	10	14	18
EBIT	92	166	204	248	292
Other Income	11	5	8	6	7
Interest expenses	7	4	4	7	9
PBT	96	167	207	248	290
Tax	23	44	55	65	75
RPAT	**74**	**124**	**152**	**183**	**215**
Growth (%)	86.5	68.2	22.8	20.6	17.6
EPS	10	16.9	18.9	22.8	26.8

Balance Sheet

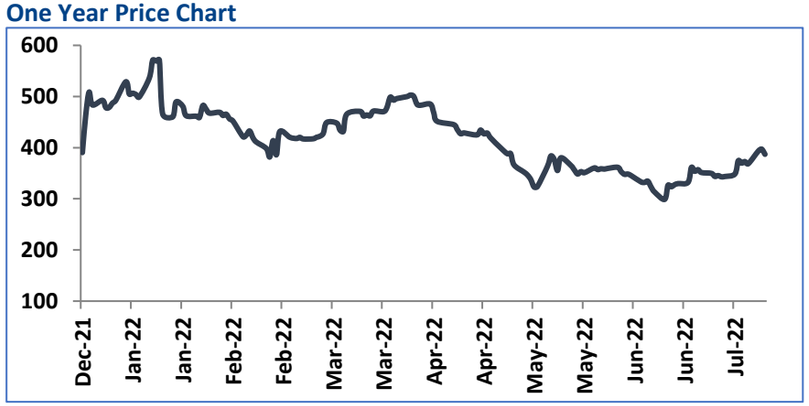
As at March	FY20	FY21	FY22	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	14.6	14.6	16.1	16.1	16.1
Reserves	134	254	600	774	979
Shareholders' Funds	**149**	**269**	**616**	**787**	**996**
Long Term Debt	2	0	0	0	0
Net Deferred Taxes	8	8	11	10	9
Long Term Provisions & Others	22	23	8	13	18
Total Source of Funds	**181**	**299**	**635**	**814**	**1022**
APPLICATION OF FUNDS					
Net Block	135	177	232	312	379
Intangible Assets	3	2	2	2	2
Long Term Loans & Advances	0	1	4	7	10
Total Non-Current Assets	**139**	**180**	**237**	**321**	**391**
Current Investments	0	0	0	0	0
Inventories	50	73	92	112	148
Trade Receivables	53	74	115	133	168
Short term Loans & Advances	1	0	1	2	3
Cash & Equivalents	2	89	228	296	370
Other Current Assets	93	30	62	69	83
Total Current Assets	**198**	**265**	**498**	**613**	**773**
Short-Term Borrowings	77	70	22	20	18
Trade Payables	49	51	49	68	90
Other Current Liab & Provisions	28	24	28	31	34
Short-Term Provisions	2	1	0	1	1
Total Current Liabilities	**156**	**146**	**100**	**120**	**143**
Net Current Assets	42	119	398	493	630
Total Application of Funds	**181**	**299**	**635**	**814**	**1022**

Supriya Lifescience Ltd.

Cash Flow Statement

(Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Reported PBT	96	167	207	248	290
Non-operating & EO items	-11	-5	-8	-6	-7
Interest Expenses	7	4	4	7	9
Depreciation	6	7	10	14	18
Working Capital Change	45	-64	-104	-26	-64
Tax Paid	-27	-30	-61	-65	-75
OPERATING CASH FLOW (a)	**116**	**79**	**49**	**171**	**170**
Capex	-25	-48	-60	-95	-85
Free Cash Flow	91	31	-11	76	85
Investments	-11	-4	-8	-3	-3
Non-operating income	11	5	8	6	7
INVESTING CASH FLOW (b)	**-25**	**-47**	**-60**	**-92**	**-81**
Debt Issuance / (Repaid)	-5	-6	-48	4	4
Interest Expenses	-7	-4	-4	-7	-9
FCFE	80	20	-63	73	81
Share Capital	0	0	1	0	0
Dividend/Buyback	-18	-4	0	-8	-11
FINANCING CASH FLOW (c)	**-29**	**-14**	**150**	**-11**	**-15**
NET CASH FLOW (a+b+c)	**62**	**18**	**139**	**68**	**74**

One Year Price Chart



Key Ratios

	FY20	FY21	FY22	FY23E	FY24E
Profitability (%)					
Gross Margin	55.6	67.3	63.1	62.2	61
EBITDA Margin	31.6	44.3	40.4	39.9	38.7
EBIT Margin	29.6	42.5	38.5	37.8	36.5
APAT Margin	23.6	31.6	28.7	27.9	27
RoE	60.5	59.2	34.4	26	24.1
RoCE	50.9	55.6	32.1	30.5	28.5
Solvency Ratio					
Net Debt/EBITDA (x)	0.8	-0.1	-1	-1.1	-1.1
D/E	0.5	0.3	0	0	0
Net D/E	0.5	-0.1	-0.3	-0.3	-0.4
PER SHARE DATA					
EPS	10	16.9	18.9	22.8	26.8
CEPS	10.9	17.8	20.1	24.4	29
BV	20	37	76	98	124
Dividend	0.8	0.4	0.6	0.9	1.2
Turnover Ratios (days)					
Debtor days	61	69	79	74	77
Inventory days	47	57	57	62	68
Creditors days	96	101	67	74	78
VALUATION					
P/E	38.5	22.9	20.5	17	14.5
P/BV	19	10.5	5.1	3.9	3.1
EV/EBITDA	28.8	16.4	13.3	10.8	9.2
EV / Revenues	9.1	7.3	5.4	4.3	3.6
Dividend Yield (%)	0.2	0.1	0.2	0.2	0.3
Dividend Payout	8	2.4	3.2	4	4.5

Source: Company, HDFC sec Research

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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