

Supriya Lifescience Limited:

Market Capitalization: Rs 2,495 crores

CMP: Rs 310

- **About the company:**

- a) **Brief Introduction:**

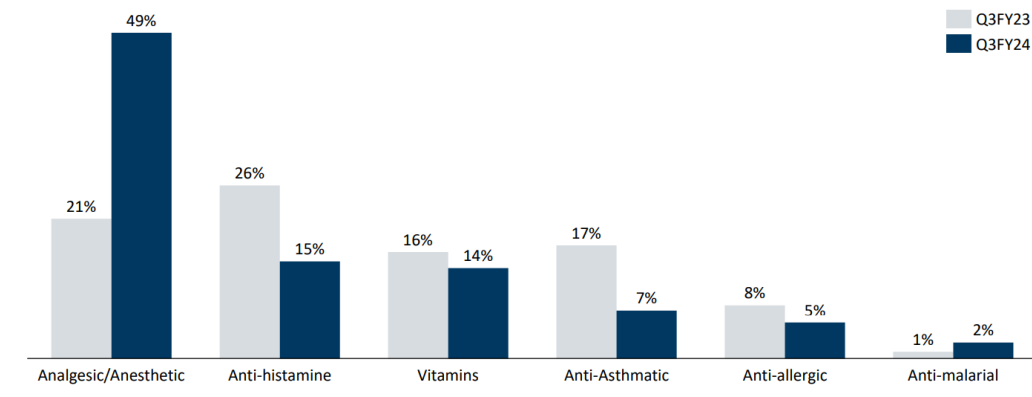
Supriya Lifescience Limited was incorporated as a public limited company in 2008 and is engaged in the business of manufacturing and export of Active Pharmaceutical Ingredients (APIs). The company's product portfolio includes a niche basket of around 38 API products that address remedies in therapeutic segments like antihistamine, analgesic, vitamin, anaesthetics, and anti-asthmatics, among others. The company has a global footprint across 86 countries and has around 1200 customers. The company listed on the stock exchanges on December 28, 2021.

- b) **Revenue segments by therapeutic areas:**

- 1) Analgesic/Anaesthetic: These are the drugs used to alleviate pain and discomfort during medical tests or procedures. For example, the company is the largest exporter of ketamine hydrochloride, which allows patients to experience restful sleep during surgery. This segment contributed 49% to the company's revenues in Q3 FY24.
- 2) Anti-histamine: Histamine is a chemical that is released by the immune system and is known for causing allergy symptoms. This further causes small blood vessels to widen and become leaky, which can cause tissues to swell. The company is the largest global manufacturer of select APIs in the anti-histamine range such as chlorphenamine maleate and salbutamol sulphate. This segment contributed 15% to the company's revenues in Q3 FY24.

Salbutamol sulphate is used to relieve symptoms of asthma and chronic obstructive pulmonary disease (COPD) such as coughing, wheezing, and feeling breathless. Whereas chlorphenamine maleate is used to treat itchy nose or throat caused by allergies, fever, and common cold.

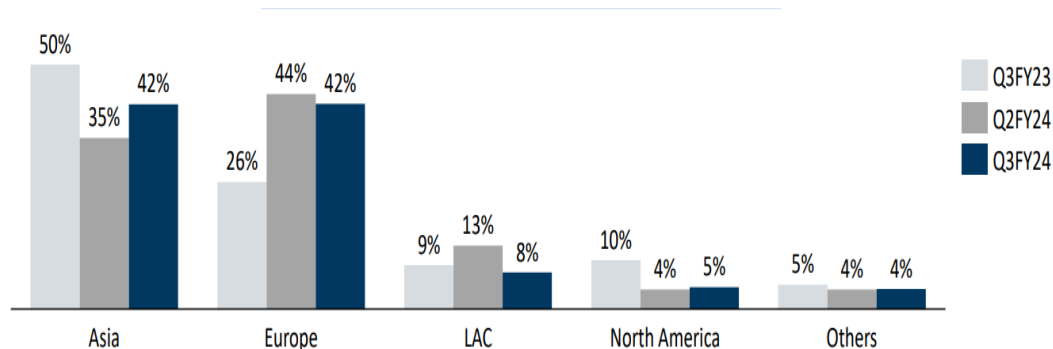
- 3) Vitamins: Vitamin B12 deficiency is common, especially amongst vegetarians, vegans, and older adults. It has unfavorable consequences on pregnancy, vascular, cognitive, bone and eye health. Here, the company produces drugs that promotes natural occurrence of vitamin B complexes in the body. This segment contributed 14% to the company's Q3 FY24 revenues.
- 4) Anti-asthmatic: These drugs are quick relief medications and are used as a need for rapid, short-term symptom relief during an asthma attack. This segment contributed 7% to the company's Q3 FY24 revenues.
- 5) Anti-allergic: These drugs range from pills and liquids, nasal sprays, eye drops, and decongestants which are used to treat various types of allergies. This segment contributed 5% to the company's Q3 FY24 revenues.
- 6) Anti-malarial: There were an estimated 6.19 lakh malaria deaths globally in 2021. People with weak immunity remain the most vulnerable. Here, the company develops anti-malarial drugs which addresses acute uncomplicated malaria.



Revenue segments by therapeutic areas

c) Revenue segments by geography:

As of FY23, export sales as a percentage of revenue from operations stood at 80%. Following is the company's business mix revenue contribution by region:



Revenue mix by regions

d) Manufacturing Facilities:

The company has a manufacturing unit at Lote Parshuram in Ratnagiri District of Maharashtra with a current reactor capacity of 597 kl per day which is divided into four blocks therapy-wise. Besides, it also has its own R&D unit at the manufacturing site which is recognized by the Department of Scientific & Industrial Research (DISR). The company also holds WHO GMP, EDQM, USFDA, and many other certifications for manufacturing various bulk drugs.

Out of 38 product offerings that the company has, 15 of them are backward integrated and formed about 73% of the Q3 FY24 revenues.

	Block A	Block B	Block C	Block D
Year of Establishment	1993	1994	2014	2021
Capacities	157 KL	195 KL	30 KL	215 KL
Regulatory Approved	✓	✓	✓	✓

The company has scaled up its manufacturing facilities over the years.

e) Client profile:

The company caters to the growing needs of renowned global pharmaceutical companies such on the likes of Syntec Do Brasil LTDA, American International Chemical Inc, Suan Farma Inc, Akum Drugs Limited, and Mankind Pharma Limited. As of FY23, about 45% of the company's revenues were derived from the top 10 customers.



The company has long standing relationship with global pharma companies.

f) About the Management Team:

- 1) Satish Wagh: He is the Chairman and Managing Director at the company. He holds a Bachelor's degree in Science from R.D National College and W.A. Science College, University of Bombay, Mumbai and an honorary Ph.D. in entrepreneurship from Faculty of Management Studies, National American University. Apart from his association with our Company, he is a Director on the Boards of Supriya Medi-Chem Private Limited, Lote Industries Testing Laboratory Association and Sachin Industries Limited.

- 2) Saloni Wagh: Saloni Satish Wagh is a Whole-time Director at Supriya Lifescience Limited. She holds a Bachelor's degree in Science from Parle Tilak Vidhyalaya Association's Sathaye College, University of Mumbai, Master's degree in Science from Institute of Science, University of Mumbai, Mumbai and a PhD in Chemistry from the Faculty of Science, Pacific University, Udaipur.
- 3) Shivani Wagh: Shivani Satish Wagh is a Whole-time Director at Supriya Lifescience Limited. She holds a Bachelor's degree in Management Studies from M.L. Dahanukar College of Commerce, University of Mumbai, Mumbai and Master's degree in International Business Management from Manchester Business School, University of Manchester, Manchester
- 4) Rajeev Jain: Rajeev Jain is the Chief Executive Officer (CEO) at Supriya Lifescience Limited. He has pursued his Master of Business Administration (Marketing) from Jivaji University, Gwalior and BSc (PCB) with distinction. He has been previously associated with companies such as Morepen Labs Ltd., Ind Swift Labs, Arch Pharma, Trident Group and Max India (DSM).
- 5) Krishna Raghunathan: Krishna Raghunathan is the Chief Financial Officer (CFO) at Supriya Lifescience Limited. He is a Chartered Accountant (CA) from ICAI and bachelor degree of Science in Zoology from Madras University, Chennai. He has been previously associated with companies like Dr. Reddy's Laboratories Limited and Granules India Limited.

- **Investment Thesis pointers:**

Following are the investment thesis pointers for the company:

- a) ROCE > CoC: Supriya Lifescience Limited's return on capital employed (ROCE) stands at 18.6% based on its TTM net profits, which is greater than the cost of capital i.e. 13%. I have taken 13% as a threshold for cost of capital because if we derive the rolling returns of the Nifty 50 since its inception in 1996, it comes out as 13-14%. Hence if a company is earning a ROCE lesser than 13-14%, one is better of simply investing in a Nifty 50 ETF as the subject company is adding no economic value. However, Supriya Lifescience Limited fits the bill! The company also trades at a TTM PE multiple of 20.7x, thus providing an operating earnings yield of more than 5%.
- b) GMP certification received: The Company has recently received the good manufacturing practice (GMP) certification for its manufacturing facility at Lote

Parshuram from the regulatory authority of Brazil, ANVISA, which covers a maximum of 7-8 countries in the Latin region. This marks the successful registration of 8 APIs with CADIFA (a letter from ANVISA) with a sales potential of Rs 200 crores in the next three years.

During the last 40 years, China was supplying drugs all over the world. However, ANVISA, Brazil has come up with its own regulatory system stating that all formulators supplying to Brazil and other countries in Latin America should have a GMP certification done by ANVISA or the USFDA/EU. Non-compliant suppliers would be terminated from March 2024 onwards, and whoever comes with an ANVISA certification will continue as the 2nd and permanent source. The opportunities for newcomers are very big here.

- c) Launch of some new anaesthetic products: Being a market leader in some anaesthetic products, the company had started the molecule development activity a year back in the same therapeutic category and these products are now ready for a commercial launch. The global market for the same is valued at \$300 million and the growth drivers for them are increasing number of surgeries, increase in the prevalence of chronic disorders like cancer and proven standards of surgical care. The company is ready to act as an import substitute to China under the 'Make in India' initiative.

- d) CDMO/CMO as an emerging opportunity: The Company also has large CMO/CDMO opportunities in its hands which will also scale up in the next three years. With regards to the API for the anaesthetic products that the company is commercializing as an import substitute, it has further gone ahead and set up a formulation plant with a bottling capacity of about 5 million annually to manufacture the finished product as it sees a CDMO opportunity for this product. Margin range in some of these projects will also be higher than the consolidated company margins.

The Company recently announced one of its key CMO projects with a leading European company where it will be an exclusive API supplier and the contract spans across 10 years with peak revenues of Rs 40 crore/year starting FY27. The company is also in discussion with some customers in the US and Europe where they are keen on buying certain finished formulations that they were earlier getting manufactured in Europe. But due to price pressures and unfavorable environment in Europe, they want to move the production to the company's site. However these discussions are at a very premature stage.

- e) Tie-up with Kalinga Institute of Technology: During Q2 FY24, the company had signed two agreements with Kalinga Institute of Technology for the development of one of a kind oral cancer detection kit named QuickBlue and a wound healing gel named GelHeal that supports scar free skin regeneration. The global cancer care market is estimated at USD 21.5 billion and the company aims to create a 1-2% market share. These products are expected to get commercialized by Q4 FY26. This is another opportunity in the CDMO/CMO space.
- f) Reduction in seasonality: The Company has been constantly diversifying its product portfolio and geographic reach. As per the management, the company will now see more stable quarters going ahead versus the H1, H2 concentration (H2 being better than H1) The company is also getting improve traction in the regulated markets such as Europe and North America. Hence, the seasonality in the business will gradually reduce. The company's first three quarters have been ramping up well in this regards with a ramp up in capacity utilization.
- g) Increasing contribution of new products: Currently, 45-50% of the company's total revenues are contributed by its top three products. However, the company is trying to scale up a basket of other 8-12 molecules in the regulated market space so that the contribution of its top three products reduce to 20-25% of sales over the next three years. On a positive note, the company is currently not witnessing any price erosion in its top three products and they are all stable and growing.
- h) Cost competitiveness due to backward integration: The Company is adding another 350 KL capacity, thus taking the total capacity to 1000 KL. A large production scale coupled with a backward integrated business model ensures that whatever new product that the company is commercializing, it has the best cost available for that product in the market. This additional capacity will come on stream by Q1 FY25.



Backward Integrated Business Model

- i) No qualified auditor opinion: The Company's auditor has not raised any qualified opinion in its FY23 annual report, which means that the company has complied with all the relevant acts and authorities and there has been no material misstatements or omissions.

- **Key risks that may pan out:**

Following are the key risks that may pan out in the company:

- a) The Red-Sea crisis: As the company derives about 80% of its sales from exports and has a global presence in 86 countries, the ongoing Red-Sea crisis could affect its shipments, freight and logistics costs in the near to medium term. Although the company has refuted this risk, it is possible that the risk might pan out.
- b) Price erosion continues in China: The company exports one anti-histamine drug to a Chinese firm where it has secured itself in terms of volumes for the next couple of years. However, there is a price erosion in the Chinese market and the company does not expect that business would go back to where it was as a couple of local competitors have entered into this product. The company's FY23 financials were severely impacted due to China's zero-covid policy. However, the company aims to combat this by diversifying its product base and entering more regulated markets.
- c) Foreign currency risk: As the company has a presence in 86 countries and derives almost 80% of its revenues from exports, fluctuation in foreign currency exchange rates can have an impact on the company's financials.
- d) Product concentration risk: Today, the company's top three products contribute about 45-50% to its total revenues. This poses a significant product concentration risk for the company as of this point in time.

e) Regulatory risk: The pharmaceutical industry is subject to extensive regulatory oversight. Failure to adhere to the regulations stipulated by governmental bodies and regulatory agencies can have adverse effects on the Company's business, financial outcomes, and operations. In certain markets such as the USA and Europe where its products are sold, the Company's manufacturing facilities and products must receive approval from regulatory authorities before distribution agents can promote them.

- **A glance at the financials:**

Here's a snapshot of the company's key historical financials:

Profit & Loss Statement-Key Line Items						
Particulars (In Crores)	FY19	FY20	FY21	FY22	FY23	9M FY24
Revenues	278	312	391	530	461	412
EBITDA (excl. OI)	65	98	173	214	129	117
EBITDA %	23%	32%	44%	40%	28%	28.5%
Net Profits	39	73	124	152	90	82
Net Profit Margin	14%	23%	32%	29%	19%	20%
Earnings Per Share (In Rs)	26.9	50.1	16.9	18.9	11.2	10.3
Balance Sheet-Key Line Items						
Particulars (In Crores)	FY19	FY20	FY21	FY22	FY23	H1 FY24
Equity Capital	14.6	14.6	14.6	16.1	16.1	16.1
Reserves	79.0	134.0	254.0	600.0	683.0	737.0
Borrowings	90.0	82.0	72.0	27.0	22.0	6.0
Other Liabilities	69.0	105.0	105.0	92.0	98.0	84.0
Total Liabilities (A)	253.1	336.2	445.5	734.8	820.3	843.1
Fixed Assets	84.7	98.6	100.0	189.8	261.5	258.0
CWIP	35.4	40.2	78.8	43.4	67.6	116.0
Investments	0.1	0.1	0.1	0.1	25.3	57.0
Other Assets	133.0	197.3	266.6	501.5	465.8	412.0
Total Assets (B)	253.1	336.2	445.5	734.8	820.3	843.1
Cashflow Statement						
Particulars (In Crores)	FY19	FY20	FY21	FY22	FY23	H1 FY24
Cash from Operating Activity	48.9	116.7	75.9	48.8	66.2	55.9
Cash from Investing Activity	4.8	-25.1	-46.8	-59.8	-133.2	-80.0
Cash from Financing Activity	-49.9	-29.2	-14.5	149.7	-3.4	-17.7
Net Cash Flow	3.8	62.3	14.6	138.6	-70.3	-41.8

Following are the highlight pointers from the above image:

- The company's revenues, EBITDA, and Net Profits have grown at a CAGR of 13.5%, 18.7%, and 23.3%. FY23 was a dull year for the company after two fantastic years due to headwinds from the China market. Going forward, the company will follow a de-risking strategy and reduce its dependence on China. For 9M FY24, the company registered a 29% increase in revenues along with a 500 bps expansion in EBITDA margins.
- The company's average CFO/PAT ratio between FY19-23 stands at 0.9, which indicates that accrual profits are actually being converted into cash profits.
- The company's total borrowings have reduced from 90 crores in FY19 to Rs 6 crores in H1 FY24, thus implying a favorable leverage position.
- Its capital work-in-progress (CWIP) is increasing since the last couple of years as it embarks on an expansion plan as discussed.

- e) The company has also been able to bring its inventory days under control. Inventory days were inflated in FY23 as the company had to keep huge stockpiles for China was shut down.
- f) The company has been generating positive cash flow from operations since FY19.

- **A comparison with peers:**

Peer Comparison				
Particulars	Market Cap (In Crs.)	TTM PE	ROCE (%)	D/E
Supriya Lifescience Limited	2,493	20.7x	18.6%	0.01
Solara Active Pharma Limited	1,325	NA	1.8%	0.67
Neuland Laboratories Limited	7,240	22.8X	20.8%	0.09
Divis Laboratories Limited	92,378	66.8X	19.4%	0

A brief comparison of the company with its peer group

- **Future Outlook & Capex Plans:**

a) Future outlook: According to the management, growth will come in three major buckets:

- 1) The first is from the top three products that the company sells. They are Ketamine Hydrochloride, Salbutol Sulphate, and Chlorphenamine maleate. These APIs are growing year-on-year because of getting repurposed in different therapies.
- 2) Next, there is a basket of 8-12 molecules which the company is trying to scale up in the regulated markets for which they have now started getting approval. Their contribution in the portfolio in terms of topline and bottom-line will increase over the years. For FY25, the company has four new products planned for launch.
- 3) Other than this, the company has large CMO/CDMO opportunities in its kitty which will simultaneously scale up over the next three years.

By totaling these three buckets, the company has provided a revenue target of Rs 1000 crores by FY27, thus implying a revenue growth rate of 20-21%, with sustainable EBITDA margins between 28-30% on a conservative basis.

b) Capex plans: The Company will close FY24 by incurring a capex of about Rs 105-110 crores which will majorly go into the expansion of module 'E' at Lote Parshuram for

the expansion of 370 KL capacity towards the new anaesthetic products (API manufacturing), and some bit will go to the bottling facility as a forward integration for the same finished anaesthetic product (CDMO opportunity) at the Ambernath site.

For FY25, the company will again incur capex in a similar range of Rs 105-110 crores where a major part of it would flow for the refurbishment of module 'A','B', and 'C' which are all pretty old modules and the rest would go towards the Ambernath facility. All of this capex would be funded through internal accruals.

- **Shareholding Pattern:**

As of December 2023, the promoters owned 68.30% stake in the company.

	Dec 2021	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Mar 2023	Jun 2023	Sep 2023	Dec 2023
Promoters +	68.24%	68.24%	68.24%	68.24%	68.24%	68.28%	68.30%	68.30%	68.30%
Flls +	10.30%	7.13%	5.99%	6.79%	6.24%	5.66%	5.73%	5.35%	4.56%
Dlls +	7.90%	7.73%	10.33%	8.88%	7.89%	7.65%	7.54%	7.17%	5.39%
Public +	13.56%	16.90%	15.44%	16.09%	17.62%	18.43%	18.43%	19.19%	21.77%
No. of Shareholders	55,292	82,578	86,853	94,594	96,998	95,605	93,478	92,991	95,929

Shareholding pattern of Supriya Lifescience Limited.

- **Some Financial Projections-A very Conservative Scenario:**

Financial Projections- On a conservative side					
Particulars (In Crores)	FY23	FY24E	FY25E	FY26E	FY27E
Revenues	460.9	553.1	663.7	796.4	955.7
EBITDA (excl. OI)	129.1	154.9	185.8	223.0	267.6
EBITDA %	28%	28%	28%	28%	28%
Net Profits	92.2	110.6	132.7	159.3	191.1
Net Profit Margin	20%	20%	20%	20%	20%
Earnings Per Share (In Rs)	11.16	13.38	16.06	19.28	23.13
PE Multiple	Assumptions:				20.7x
Target Price	1) Revenue Growth: 20%				478.791
	2) EBITDA Margins: 28%				
	3) PAT Margins: 20%				15.40%
Stock Price CAGR (FY24-27)	4) No PE re-rating assumed				

Based on the assumptions provided in the above table, the FY27 EPS i.e. Rs 23.13 per share has been multiplied by the stock's current PE multiple i.e. 20.7 to arrive at an FY27 target price of Rs 478. With respect to the current stock price of Rs 310/share, this gives us a CAGR of 15.4%

for FY24-27 period. These projections have been made on the back of very conservative assumptions. Also, no re-rating in the stock's PE multiple has been factored in.

However, if the execution by the management gets better on a quarterly basis, the investor-perception about the stock might improve leading to a re-rating and some handsome returns from the company's stock!