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IPO note: Supriya Lifescience Limited - "SUBSCRIBE" **Dec. 16, 2021**

Impressive background and business model..

Supriya Lifescience Limited ("SLL") was incorporated on March 26, 2008. SLL is one of the key Indian manufacturers and suppliers of active pharmaceuticals ingredients ("APIs"), with a focus on research and development. Company's focus is primarily on diverse therapeutic areas and niche products.

As of October 31, 2021, SLL has niche product offerings of 38 APIs focused on diverse therapeutic segments such as antihistamine, analgesic, anaesthetic, vitamin, anti-asthmatic and anti-allergic. The Company has consistently been the largest exporter of Chlorpheniramine Maleate and Ketamine Hydrochloride from India. The Company was among the largest exporters of Salbutamol Sulphate contributing to 31 percent of the API exports from India in FY 2021 in volume terms. (Source: CRISIL Report).

The Company's 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, they have filed 14 active DMFs with USFDA and 8 active CEPs with EDQM, for their API products in therapeutic areas such as antihistamine, analgesic, anaesthetic, vitamin, anti-asthmatic and antiallergic.

The Company's pharmaceutical business is organized into domestic and export sales. As of October 31 2021, their products were exported to 86 countries to 1,296 customers including 346 distributors.

The Company's business operations are supported by a modern manufacturing facility located in Parshuram Lote, Maharashtra, spread across 23,806 sq.mt. The Company has 4 manufacturing blocks which are segregated therapeutic segment wise. The 4th block commenced operation in May 30, 2021. The Company's manufacturing capabilities range from development of simple molecules to highly complex chiral centre molecules with expertise in different class of reactions. The Company is capable of manufacturing control category drugs. The Company also manufacture products that require a specialized environment for manufacturing such as Vitamin B-12 and its derivative. In the Fiscal 2020, the Company undertook the strategic acquisition of Swastik Industries, which was a sole proprietorship of their promoter, through a business transfer agreement. Swastik Industries was primarily engaged in the business of manufacturing of APIs. The acquisition of the manufacturing facility of Swastik Industries enabled optimal utilisation of manufacturing resources and collation of manufacturing capabilities under one entity.

Long standing relationships with marquee players across various industries

The company has established long standing relationships with marquee players across various industries. The Company's Customers includes:

Business relationship for over 9 years: Syntec Do Brasil LTDA, American International Chemical Inc, AT Planejamento E Desenbolvimento De Negocios Ltd

Business relationship for over 4 years: Suan Farma Inc, Acme Generics LLP, Akum Drugs Ltd, Makind Pharma Ltd

Consistent strong financial performance due to de-risked business model

The company has a proven track record of operations of over 12 years and has strong balance sheet as well as a stable cash flow profile. The Company had positive operating cash flows every financial year since incorporation. The Company's total income, EBIDTA and profit after tax grew at a CAGR of 17.73 percent, 56.47 percent and 77.23 percent from Fiscal 2019 to Fiscal 2021.

Issue date	**Dec. 16 - Dec. 20, 2021**
Listing date	Dec. 28, 2021
Price Band	₹ 265 - ₹274 (Face value:₹ 2)
Bid lot	54 equity shares and in multiple thereof
Issue size and type	Rs. 700 Crore Fresh issue upto : Rs. 200 Crore Offer for sale of upto: Rs. 500 Crore
Issue structure	QIB - 75%, NIB - 15%, Retail -10%
Post issue shares	8.048 Crore equity shares
Promoters **Promoter group** **Public - Other**	Pre IPO: 99.26 % | Post IPO: 67.59 % Pre IPO: 0.72 % | Post IPO: 0.65 % Pre IPO: 0.02 % | Post IPO: 31.76%
Post issue market cap	₹ 2,205 Crore
BRLMs	Axis Capital, ICICI Securities
Registrar to the issue	Link Intime India Pvt. Ltd.

Particulars (₹ Crore)	6MFY22	FY21	FY20	FY19
Topline	225	385	312	278
EBITDA	99	178	109	73
EBITDA (%)	43.89	46.23	35.12	26.19
Profit after tax	66	124	73	39
Equity share cap.	14.64	14.64	14.64	14.64
Networth	335	269	149	94
Book value (₹)	46	37	20	13
Diluted EPS (₹)	16.39#	15.40	9.08	4.85
P/E (x)	17	18	30	56
RoNW (%)	19.70^	46.04	49.20	42.03
Debt/Equity (x)	0.21	0.26	0.55	0.95
Asset turnover (x)	1.55	4.03	3.33	3.41

Source: RHP, ^ denotes not annualised, # denotes annualised

Investment recommendation and rationale

At the upper end of the price band of ₹274, the Company's IPO is valued at P/E of 17x at H1FY22 annualised EPS and P/E of 18x on FY21 EPS which looks decent and reasonable.

We recommend investors to "SUBSCRIBE" to the issue owing to the following factors: a) The Company will be a major beneficiary from increasing demand by companies in regulated markets to reduce their dependence on China led by supply chain disruption in COVID-19 era, b) significant scale with leadership position across key & niche products, c) Company's core strength lies in identifying generic molecules (off-patent) in their existing therapeutic segments, d) largest exporter of Chlorpheniramine Maleate and Ketamine Hydrochloride from India, e) among the largest exporters of Salbutamol Sulphate contributing to 31% of the API exports from India in FY 2021 in volume terms, f) Company's backward integration of API ensures steady supply of intermediates, g) geographically diversified revenues with a global presence across 78 countries, h) advanced manufacturing and research and development capabilities, i) consistent strong financial performance due to de-risked business model, i) positive operating cashflows since inception, k) strong EBITDA margin and return ratios, l) low debt Company, m) increasing exposure to regulated markets augurs well for the Company in terms of margin expansion in the longer term. The Company has raised Rs. 315 Crore from 18 anchor investors instills confidence in the issue.

Research report written by - Akash Jain, MBA (Financial Markets), Vice – President Research

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Objects of the issue

Fresh issue - Upto Rs. 200 Crore

Offer for sale	Amount (₹ in Crore)
Funding capital expenditure requirements of the company	**92.30**
Repayment and/or pre-payment, in full or part, of certain borrowings availed by the company	**60.00**
General Corporate Purposes	-

Source: RHP

Offer for sale by Promoter - Upto Rs. 500 Crore by Promoter Satish Waman Wagh.

Industry overview

The bulk drug industry in India is ranked third-largest globally in terms of volume, behind China and Italy. About 35 per cent of bulk drugs produced in India are exported and the remaining bulk drugs are sold in the domestic market, including captive consumption by several large formulation players. India is the largest provider of generics drugs globally contributing to 20 percent in global supply by volume of generics drugs. India ranks lower in terms of value of pharmaceutical at 14th position as compared to 3rd position in volume terms.

India enjoys cost advantage over regulated markets

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.

COVID-19 impact on pharmaceutical sector has been minimal

The COVID-19 impact on the pharma sector has been less pronounced than observed in the other sectors, as pharmaceuticals were included under the essential services category and were exempt from the restrictions under the nationwide lock-down. But COVID-19 pandemic put a brake on production and the supply chain of major pharmaceutical companies and on export of certain critical API and drugs. The pandemic highlighted the global reliance on China for APIs for various drugs. 44 Chinese companies were deemed non-operational during the pandemic due to lockdown restrictions placed by the government of China. This impacted exports of key material from China. This has led to various nations rolling out programs for indigenous API production and nations across the EU have reassessed their healthcare models for fighting against pandemic and ensuring a constant inflow of API production. Leading pharmaceutical companies are changing their business models and offering solutions based on key performance indicators as required by country.

Supply chain and quality disruptions in China to aid in medium term

Following the coronavirus pandemic breakout, China was unable to supply bulk drugs/API to its customers. Consequently, prices of these drugs have also increased now. Even though, supply from China has resumed, with quality issues in recent times and declining global image, India might gain a competitive edge in the sector.

Demand is expected to pick up in regulated markets, as customers source from India as part of de-risking value chain from China. Growth will be supported by increasing focus of Indian players in the specialty products segment, where competition is comparatively low.

Company Products and revenue

The company manufactures APIs and their business is organized into domestic and export sales, according to the geographies in which it operatea. The total revenue (from each business segment) for the respective periods is listed below:

	H1FY22		Fiscal 2021		Fiscal 2020		Fiscal 2019	
	Revenue (₹ Cr)	% to Total	Revenue (₹ Cr)	% to Total	Revenue (₹ Cr)	% to Total	Revenue (₹ Cr)	% to Total
Export sales	165.38	73.57%	298.55	77.47%	223.93	71.85%	197.17	70.96%
Domestic sales	59.42	26.43%	86.81	22.53%	87.72	28.15%	80.67	29.04%
Revenue from Operations	**224.80**	**100.00%**	**385.36**	**100.00%**	**311.65**	**100.00%**	**277.84**	**100.00%**

Source: RHP

The Company's focus is primarily on diverse therapeutic areas and niche products. The Company's selection of every molecule is backed by extensive research and study especially in terms of patents, chemistry, regulated and unregulated markets, capital expenditure, volumes, price, margins and expected rate of return.

The details of products which are sold in the domestic and international markets:

Product	Therapeutic area	Molecule	Certifications /Dossiers
Chlorpheniramine Maleate (CPM)	Antihistamine	API	EDQM Approval, US DMF, CEP, Health Canada, Taiwan FDA, NMPA DMF, EDMF
Brompheniramine Maleate (BPM)	Antihistamine	API	US DMF, NMPA DMF, CEP, EDMF
Pheniramine Maleate	Antihistamine	API	US DMF, , CEP, EDMF, NMPA DMF
Dexchlorpheniramine Maleate	Antihistamine	API	US DMF, EDMF
Mepyramine Maleate	Antihistamine	API	US DMF, CEP, EDMF
Ketamine Hydrochloride	Analgesic/Antipyretic/Anesthetic	API	US DMF, CEP, TGA DMF, Canadian DMF (Human Use & Veterinary), EDMF
Tramadol Hydrochloride	Analgesic/Anti-pyretic/ Anesthetic	API	Korean FDA, EDMF
Riboflavin 5 – Phosphate Sodium	Vitamin	API	US DMF, EDMF, Kosher, Indonesian Halal, Maharashtrian Halal, FAMI-QS, CEP applied
Salbutamol Sulphate	Anti-asthmatic	API	EDMF, CEP
Cetirizine Dihydrochloride	Anti-allergic	API	EDMF
Diphenhydramine Hydrochloride	Anti-allergic	API	EDMF, US DMF
Bupropion Hydrochloride	Smoking cessation	API	US DMF
Bisoprolol fumarate	Anti-hypertensive	API	EDMF, US DMF
Methylcobalamine	Vitamin B12	API	US DMF, KFDA, Kosher, Halal India, Halal Indonesia

Source: RHP

The key jurisdictions in which the company sells its products are elaborated in the matrix below:

Region	Country	Therapy	Market
Africa	Kenya, Tanzania, Uganda, Zimbabwe, Ghana and Nigeria	Anti-histamine, anti-allergic and anti-asthamatic	non-regulated markets
Asia	China	Anti-histamine and anti-asthamatic	Regulated
Asia	South Korea	Anti-histamine, vitamin, analgesic and anti-allergic	Regulated
Asia	Cambodia, HongKong, Singapore, Phillipines, Srilanka, Taiwan, Malaysia, Thailand, Vietnam and Bangladesh	Anti-histamine, anti-allergic, vitamin, anti-asthmatic and analgesic	Semi-regulated and non-regulated markets
Asia	Japan	Chlorpheniramine maleate	Regulated
Europe	UK, Germany, Netherland, Spain, Switzerland, Belgium, Italy and France	Analgesic, anti-hypertensive, ant-allergic, anti-histamine, analgesic, vitamin and anti-asthmatic	Regulated
Latin America	Argentina	Anti-histamine, anti-allergic, analgesic and anti-asthmatic	Non-Regulated
Latin America	Brazil	Anti-histamine, anti-allergic, analgesic and anti-asthmatic	Regulated
Latin America	Venezuela and Chile	Anti-histamine and analgesic	Semi-regulated and non- regulated markets
Latin America	Columbia, Mexico and Peru	Anti-histamine, anti-allergic, analgesic, vitamin and anti-asthmatic	Semi-regulated and non-regulated markets
North America	United States of America and Canada	Anti-hypertensive, anti-histamine, decongestant, anti-allergic, analgesic, vitamin and anti-asthmatic	Regulated

Source: RHP

Research and development

The company has a DSIR approved R&D facility in Parshuram Lote, Maharashtra. The Company's R&D efforts are primarily focused across the value chain of API process development. As on October 31, 2021, the Company has a team of 23 scientists. The Company's R&D efforts are demonstrated by a strong pipeline of products such as Dextromethorphan Hydrobromide (decongestant), Pentoxifylline (xanthine derivatives), (S)-Ketamine Hydrochloride (analgesic/ anti-pyretic/anaesthetic), Phenylephrine Hydrochloride (decongestant), Allopurinol (antigout) and Benfotiamine (diabetic neuropathy). The Company is in the process of expanding their existing R&D facility to add, amongst others, a testing laboratory, research and development centre and fully automatic equipped warehouse.

The R&D efforts are demonstrated by the strong pipeline of products as below:

Therapeutic segment	Product	Certifications
Decongestant	Dextromethorphan Hydrobromide	EDMF, US DMF
Xanthine derivatives	Pentoxifylline	EDMF, CEP
Anesthetic	(S)-Ketamine Hydrochloride	EDMF, CEP, US DMF
Decongestant	Phenylephrine Hydrochloride	-
Anti-gout	Allopurinol	-
Coagulation	Tranexamic Acid	-
Diabetic Neuropathy	Benfotiamine	-

Source: RHP

Intellectual Property and Certifications

The Company's 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, they have filed 14 active DMFs with USFDA and 8 active CEPs with EDQM, for their API products in therapeutic areas such as antihistamine, analgesic, anaesthetic, vitamin, anti-asthmatic and anti-allergic.

Competitive strengths

Significant scale with leadership position across key & niche products

The Company's core strength lies in identifying generic molecules (off-patent) in their existing therapeutic segments which fits in to their existing chemistry and production infrastructure and their ability to develop the product and scale-up production. With their focus on products which are high on value and low on competition, the Company is well positioned to derive relatively higher returns from their investments.

(₹ In Crore)

Fiscal 2021			Fiscal 2020		Fiscal 2019	
Total Export from:						
India	India	Company	India	Company	India	Company
Chlorpheniramine Maleate	80.49	57.90	66.52	49.28	47.11	39.85
Ketamine	162.00	95.11	109.19	70.34	75.45	49.20
Salbutamol Sulphate	80.71	30.43	40.02	14.85	14.83	58.52
Vitamin B2 (Riboflavin, Lactoplavin) and its salts	74.06	20.61	48.81	12.98	58.52	16.14
Other derivatives of Pyridine	1,282.98	37.80	1,081.07	25.67	776.81	27.09

Source: RHP

The company is in the process of further diversifying its product portfolio with strong product pipeline and it has already started initial phase of production, which are primarily used for distribution of samples to different customers, primarily in unregulated markets. The Company is in the process of commencing commercial production of these products.

The annual capacity of the specified products:

Product	Global annual demand#	Company's annual capacity
Dextromethorphan Hydrobromide	1,406 MT	250 MT
Pentoxifylline	3,798 MT	300 MT
S-Ketamine Hydrochloride	5 MT	2 MT
Phenylephrine Hydrochloride	430 MT	60 MT
Allopurinol	1,871 MT	300 MT
Benfotiamine	170 MT	60 MT

Source: RHP

Backward integrated business model

The Company's backward integration of API ensures steady supply of intermediates. As on October 31, 2021, 12 of their existing products are backward integrated, which contributed 67.14 percent and 60.17 percent of the total revenue for Fiscal year 2021 and for the 6 month period ended September 30, 2021, 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, their integration model of business helps them to have sustainable business.

Product	6 months ended Sep'30, 2021	Fiscal 2021
Ketamine Hydrochloride	19.11%	27.42%
Salbutamol Sulphate	8.80%	9.86%
Chlorpheniramine Maleate	24.23%	18.17%
Bisoprolol Fumarate	1.23%	3.05%
Pheniramine Maleate	1.29%	2.50%
Dexchlorpheniramine Maleate	2.08%	2.48%
Brompheniramine Maleate	0.45%	1.13%
Mepyramine Maleate/Pyrilamine Maleate	1.09%	1.64%
Levosalbutamol Sulphate	0.63%	0.42%
Dextromethorphan Hydrobromide	0.99%	0.34%
Dexbrompheniramine Maleate	0.10%	0.12%
Allopurnol	0.17%	-

Source: RHP

Geographically diversified revenues with a global presence across 78 countries

The global pharmaceutical market can broadly be divided into regulated markets, semi-regulated and nonregulated markets.

From April 1, 2020 until October 31 2021, company's products were exported to 86 countries including:
Regulated markets such as USA, China, Japan, Germany, Spain, Indonesia, South Korea and Switzerland; and
Semi-regulated and non-regulated markets such as Brazil, Mexico, Chile, Taiwan, Malaysia; Bangladesh, South Africa, Kenya, Jordan and Egypt, through their own marketing and distribution network as well as by entering into distribution arrangements with pharmaceutical distributors in these markets.

The Company's business model is de-risked from the perspective of low revenue generation or loss from a particular jurisdiction or from products of a particular therapeutic segment.

The percentage of total revenue contribution from regulated markets and semi-regulated and non-regulated markets:

Markets	6 months ended Sep'30, 2021	Fiscal 2021	Fiscal 2020	Fiscal 2019
Regulated	49.22%	38.17%	32.60%	34.03%
Semi-regulated and non-regulated markets	50.78%	61.83%	67.04%	65.97

Source: RHP

The region wise percentage of total revenue from operations:

Region	6 months ended Sep'30, 2021	Fiscal 2021	Fiscal 2020	Fiscal 2019
Latin/ South America (Argentina, Brazil and Peru)	12.01%	19.15%	7.68%	9.70%
Europe	18.53%	17.40%	17.69%	13.44%
Asia (other than India, China and Combodia)	17.28%	19.45%	24.02%	28.94%
India	26.43%	22.53%	28.15%	29.04%
China and Cambodia	19.48%	9.82%	12.12%	8.53%
North America	2.36%	4.76%	6.06%	7.38%

Source: RHP

Advanced manufacturing and research and development capabilities

The manufacturing facility located in Parshuram Lote, Maharashtra which is spread across 23,806 sq.mt and has reactor capacity of 547 KL/ day, has 4 manufacturing blocks which are segregated therapeutic segment wise. The 4th block commenced operation on May 30, 2021. Their manufacturing capabilities range from development of simple molecules to highly complex chiral centre molecules with expertise in different class of reactions.

The R&D efforts are primarily focused across the value chain of API process development. As on October 31, 2021, they have a team of 23 scientists. The R&D efforts are demonstrated by a strong pipeline of products. With a view to enhance their R&D capabilities, the Company is in the process of expanding their existing R&D facility to add, amongst others, a testing laboratory, research and development centre and fully automatic equipped warehouse.

Consistent strong financial performance due to de-risked business model

The company has a proven track record of operations of over 12 years and has strong balance sheet as well as a stable cash flow profile. The Company had positive operating cash flows every financial year since incorporation. The Company's total income, EBIDTA and profit after tax grew at a CAGR of 17.73 %, 56.47% and 77.23% from Fiscal 2019 to Fiscal 2021.

Experienced senior management team and qualified operational personnel

The Company's Promoter and Chairman, Satish Wagh, has extensive experience in the pharmaceutical sector. He has played a key role in developing their business and they benefit from his significant experience in the pharmaceuticals business. The Company has built strong management team. Additionally, the R&D team is headed by Dr. Sushanta Mishra along with a team of 23 scientists, as on October 31, 2021. The Board of Directors include a combination of management executives and independent members who bring in significant business expertise.

Competition

The pharmaceutical industry is highly competitive. Company's competition varies by market, therapeutic areas and type of product. The Company's principal competitors include Divi's Laboratories Ltd, Wanbury Ltd, Unichem Laboratories Ltd, Mangalam Drugs and Organics Ltd, IPCA laboratories Ltd and Teva API B.V, which operate in the Indian pharmaceutical market, in similar therapeutic areas. In foreign markets, the Company competes with regional players and multinationals.

Background

Company and Directors

The company was incorporated on March 26, 2008. The company was promoted by Satish Waman Wagh. Currently, the promoter holds 72,642,380 Equity Shares, representing 99.26% of the issued, subscribed and paid-up Equity Share capital of the company.

Brief Biographies of Directors

Satish Waman Wagh is the Promoter, Chairman and Managing Director of the company. He has been a director on the Board since incorporation. Apart from his association with the company, he is a Director on the boards of Supriya Medi-Chem Pvt Ltd, Lote Industries Testing Laboratory Association and Sachin Industries Ltd.

Smita Satish Wagh is the Whole-time Director of the company. She has been a director on the Board since incorporation. Apart from her association with the company, she is a Director on the boards of Supriya Medi-Chem Pvt Ltd.

Saloni Satish Wagh is the Whole-time Director of the company.

Shivani Satish Wagh is the Whole-time Director of the company.

Balasaheb Gulabrao Sawant is the Whole-time Director of the company. He was previously associated with companies such as USV Ltd, Encure Pharmaceuticals Ltd, Arch Pharmalabs Ltd, Mylan Laboratories Ltd and Enaltec Labs Pvt Ltd.

Kedar Shankar Karmarkar is the Independent Director of the company. He was previously associated with Ciba-Geigy AG as a trainee and with the laboratory of Institut Fur Organische Chemie Der Universitat Basel as a research fellow. He was previously employed with Nicholas Piramal India Limited as an executive in the R&D department.

Bhairav Manojbhai Chokshi is an Independent Director of the company. Prior to joining the Board, he was associated with IDFC Asset Management Co Ltd. Apart from his association with the company he is a director on the boards of Bookbyair (India) Pvt Ltd and IR Financial Services Pvt Ltd.

Dileep Kumar Jain is the Independent Director of the company. Prior to joining the company, he was associated with IFCI Ltd. as the Executive Director. Apart from his association with the company, he is a director on the board of Rajasthan Consultancy Organization Ltd.

Dinesh Navnitlal Modi is the Independent Director of the company. Apart from his association with the company, he is a Director on the boards of Kisan Mouldings Ltd, Arrow Greentech Ltd and Shree Yogeshwari Realtors Ltd.

Neelam Yashpal Arora is the Independent Director of the company. Apart from her association with the company, she is a Director on the boards of Kesar Petroproducts Ltd and Shreyas Intermediates Ltd.

Key Managerial Personnel

Shireesh Bhalchandra Ambhaikar is the Chief Executive Officer of the company. He joined the company on July 6, 2021.

Ashish Ramdas Nayak is the Chief Financial Officer of the company. He joined the company on August 5, 2019.

Shweta Shivdhari Singh is the Company Secretary and Compliance Officer of the company. She was appointed as the Company Secretary on August 26, 2019 and was appointed as the Compliance Officer on May 6, 2021.

Sushanta Kumar Mishra is the Chief Scientific Officer of the company. He joined the company on September 7, 2021.

Parthasarathi Pal is the Chief Marketing Officer of the company. He joined the company on May 25, 2021.

Prashant Baban Zate is the Head Corporate - Quality Assurance and Regulatory Affairs of the company. He was appointed on November 27, 2007.

Pratap Santu Desai is the Head - IT of the company. He was appointed on August 17, 2020.

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