

RETAIL EQUITY RESEARCH

Supriya Lifescience Ltd.

Pharmaceuticals

SENSEX: 58,117

NIFTY: 17,325

SUBSCRIBE

Price Range Rs. 265 - Rs. 274

A Niche player with a Global presence...

Supriya Lifescience Ltd (SSL), incorporated on 26<sup>th</sup> March 2008, is one of the key Indian manufacturers and suppliers of active pharmaceuticals ingredients (API), focusing on research and development. As of October 31, 2021, SSL has niche product offerings of 38 APIs focused on diverse therapeutic segments such as antihistamine, analgesic, anaesthetic, vitamin, anti-asthmatic and antiallergic. SSL is the largest exporter of Chlorpheniramine Maleate and Ketamine Hydrochloride contributing to 45-50% and 60-65%, respectively, of the API exports from India, between FY17 and FY21. Additionally, SSL is among the largest exporters of Salbutamol Sulphate in India contributing to 31% of the API exports from India in FY 2021 in volume terms (*Source: CRISIL Report*).

- The global pharmaceutical market grew at ~5% CAGR from ~USD 955 bn in CY14 to ~USD 1,270 bn in CY20 and is expected to sustain this growth over the next 5 years to reach USD 1,585-1,625 bn in CY25 led by technological advances, rise in aging population and sedentary lifestyles.
- Enjoys an extensive global presence with products exported to 86 countries to 1,296 customers as of Oct 2021. Exports contribute to ~77% of FY21 sales.
- Strong R&D capabilities and advanced manufacturing facility with reactor capacity of 547KL/day including 7 clean rooms. The capacity utilisation improved steadily from 52% in FY18 to 71% in FY21.
- SSL enjoys a global client base with long-standing relationships on the back of consistent product quality and reliability of supply. SSL filed 14 active DMFs with USFDA & 8 active CEPs with EDQM, for API products in therapeutic areas as of Oct 2021.
- Revenue grew healthy at a CAGR of ~18% over FY19-FY21 led by higher sales volumes, increase in selling prices and penetration in newer markets.
- EBITDA grew at a CAGR of ~61% while EBITDA margins improved significantly from 23% in FY19 to 43% in FY21 led by an increase in penetration towards regulated markets.
- PAT grew at a CAGR of ~77% over FY19-21 led by better operating performance and topline growth.
- SSL has a healthy balance sheet position with a D/E ratio of 0.2x as of H1FY22. Out of IPO proceeds ~Rs.60cr will be utilized for debt repayment which results in negligible debt status.
- At the upper price band of Rs.274, SSL is available at P/E of 16.7x (FY22E annualized) which appears to be reasonably priced compared to its peers. Hence, we assign a “Subscribe” rating for the issue on a short to long term basis considering its strong financial performance both topline and bottom-line, improving margins, export exposure, capacity expansions and increased penetration to regulated markets.

Purpose of IPO

The offer comprises of fresh issue and offer for sale, totaling to Rs. 700cr. The proceeds of the offer for sale (Rs.500cr) shall be received by the selling shareholders. The net proceeds of the fresh issue (Rs.200cr) will be utilized for funding working capital requirements (Rs. 93.3cr) of the company, repayment of borrowings (Rs.60cr) and general corporate purposes.

Key Risks

- Top 10 customers contribute ~47% to FY21 sales. Going ahead, as penetration to be more on regulated markets there will be a reduction in customer concentration.
- The industry is subject to regulatory changes.
- Competition from other Pharma API players.

Peer Valuation

Company	MCap (₹ cr)	Sales (₹ cr)	EBITDA(%)	EV/EBITDA	EPS(₹)	RoE (%)	P/E(x)	CMP₹
Supriya Lifescience Ltd	2,205	385	43.4	13.7	15.4	46.0	17.8	274
Solara Active Pharma Sciences	4,230	1,617	23.9	13.8	61.6	16.6	18.7	1,151
Neuland Laboratories	2,163	937	15.7	19.3	63.0	10.8	27.2	1,715
Aarti Drugs Ltd	5,236	2,155	20.3	15.5	30.1	35.8	19.2	578
Divis laboratories Ltd	12,1186	6,858	41.7	32.8	74.8	23.9	60.2	4,506

Source: Geojit Research, Bloomberg; Valuations of SLL are based on upper end of the price band (post issue), Financials as per FY21 Consolidated.

Issue Details	
Date of opening	Dec 16, 2021
Date of closing	Dec 20, 2021
Total No. of shares offered (Cr.)	2.55
Post Issue No. of shares (cr)	8.05
Price Band	₹265- ₹274
Face Value	₹ 2
Bid Lot	54 Shares
Minimum application for retail (upper price band for 1 lot)	₹ 14,796
Maximum application for retail (upper price band for 13 lot)	₹ 1,92,348
Listing	BSE,NSE
Lead Managers	Axis Capital Ltd, ICICI Securities Ltd.
Registrar	Link Intime India Pvt. Ltd.

Issue size (upper price)	Rs.Cr
Fresh Issue	200.0
OFS	500.0
Total Issue	700.0

Shareholding (%)	Pre-Issue	Post Issue
Promoter & Promo. Group	99.98	68.24
Public	0.02	31.76
Total	100	100

Issue structure	Allocation %	Size Rs.cr
Retail	10	70
Non-Institutional	15	105
QIB	75	525
Employee Reservation	-	-
Total	100	700.0

Y.E March (Rs cr) Consol.	FY20	FY21	H1FY22
Sales	311.6	385.4	224.8
Growth (%)	12.2	23.7	-
EBITDA	98.4	167.3	93.4
Margin%	31.6	43.4	41.6
PAT Adj.	73.4	123.8	66.0
Growth (%)	86.2	68.7	-
EPS	9.1	15.4	8.2
P/E (x)	30.0	17.8	16.7*
EV/EBITDA	23.5	13.7	11.9*
RoE (%)	49.2	46.0	19.7

\*Annualised.



### Business Description...

The pharmaceutical business of SSL is organized into domestic and export sales, according to the geographies in which they operate.

The below table sets forth the region wise percentage of total revenue from operations for the specified periods:

Region	Fiscal 2019	Fiscal 2020	Fiscal 2021	April 1, 2021 to September 30, 2021
Latin/ South America (Argentina, Brazil and Peru)	9.70%	7.68%	19.15%	12.01%
Europe	13.44%	17.69%	17.40%	18.53%
Asia (other than India, China and Combodia)	28.94%	24.02%	19.45%	17.28%
India	29.04%	28.15%	22.53%	26.43%
China and Cambodia	8.53%	12.12%	9.82%	19.48%
North America	7.38%	6.06%	4.76%	2.36%

Source: Geojit Research, RHP

The below table sets forth the percentage of total revenue contribution from regulated markets and semi-regulated and non-regulated markets, for the specified periods:

Markets	Fiscal 2019	Fiscal 2020	Fiscal 2021	April 1, 2021 to September 30, 2021
Regulated	34.03%	32.6%	38.17	49.22
Semi-regulated and non-regulated markets	65.97%	67.04%	61.83	50.78

Source: Geojit Research, RHP

SSL’s products are registered with various international regulatory authorities such as USFDA, EDQM, NMPA (previously known as SFDA), KFDA, PMDA, TGA and Taiwan FDA.

### Manufacturing Facilities and Capacity

SSL has a modern manufacturing facility located in Parshuram Lote, Maharashtra, spread across 23,806 sq.mt and have reactor capacity of 547 KL/ day with 7 clean rooms. SSL has also acquired a plot of land measuring 12,551 sq.mt near existing manufacturing facility wherein the Company intends to expand its manufacturing infrastructure.

Manufacturing facility	Address	Reactor Capacity (KL/annum)*			April 1, 2021 to October 31, 2021
		Fiscal 2019	Fiscal 2020	Fiscal 2021	
Existing blocks A, B & C	A-5/2, A-5/1, A-6/3	53120**	53120**	53120**	31540 **
Block D, which became operational on May 30, 2021		-	-	-	14405***
Total		53120	53120	53120	45945

\* The reactor capacity of the Company has remained unchanged in Fiscal 2019, Fiscal 2020 and Fiscal 2021 and includes the reactor capacity of Swastik Industries’ reactors. In May 2021, fourth manufacturing block became operational with additional reactor capacity of 34,400 KL/annum

\*\*Reactor capacity for A, B and C Block has been calculated as follows:332KL/day x 160 days = 53120 and for the period from April to October 2021 calculated as 332KL/day x 95 days = 31540

\*\*\* Reactor capacity for D Block has been caculated as follows: 215KL/day x 67 days= 14405

	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	April 1, 2021 to October 31, 2021
Capacity Utilisation %	52%	63%	63%	71%	49%

Source: Geojit Research, RHP

The Backward integration of API business ensures steady supply of intermediates and key starting materials. As on October 31, 2021, 12 of the existing products are backward integrated, which contributed 67.14% and 60.17% of the total revenue for FY21 and for the six-month period ended September 30, 2021.

### Key Strategies:

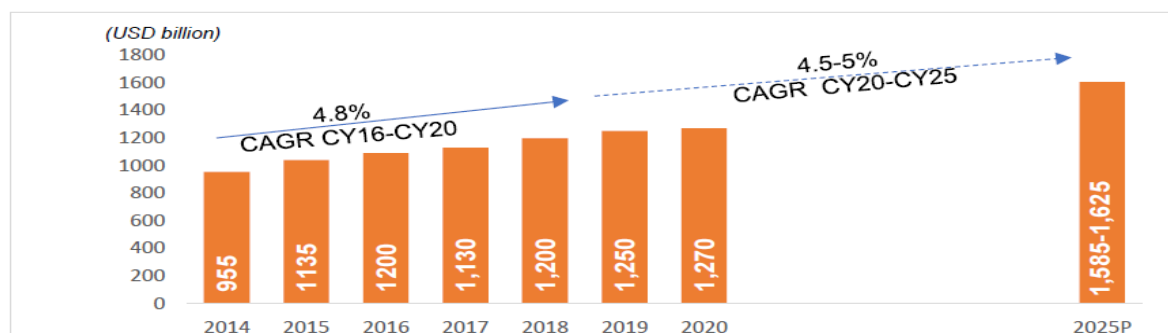
- Expansion of manufacturing capabilities.
- Expanding product portfolio with increasing R&D capabilities.
- Increase current market presence and enter new markets.
- Continue to focus on operational excellence.



## Industry Outlook

The Indian pharmaceutical industry can be broadly classified into formulations and bulk drugs. Formulations can be further divided into domestic and export formulations. Bulk drugs can also be similarly categorised. About USD 3.9 billion worth of bulk drugs were exported in FY20. A major part is sold in the domestic market and used for captive consumption with many large formulation players performing backward integration. Global pharmaceutical market has grown by around 4.8% CAGR from ~USD 955 billion in CY14 to ~USD 1,270 billion in CY20. It is expected to sustain this growth over the next five years to reach USD 1,585-1,625 billion in CY25. New product launches, widespread population aging and sedentary lifestyles leading to increased chronic disease prevalence, technological advances, new methods for drug discovery, and an increase in pharmaceutical drug usage have been some of the key growth drivers for the industry.

Global pharmaceutical market by value

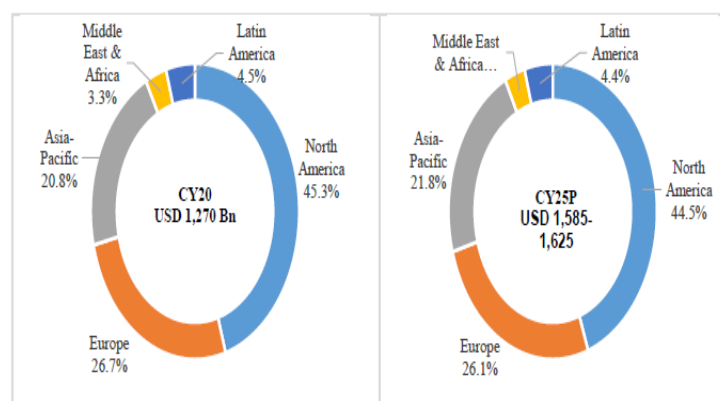


(1) P: Projected  
Source: Mordor Intelligence, Pharma Company reports, CRISIL Research

Source: Geojit Research, RHP

Global pharmaceutical market has grown over the years owing to manifold increase in the value terms mainly in the markets of North America, Europe, and Asia Pacific. North America is the largest pharmaceutical market in the world with the value of ~USD 575-585 billion as of CY20 followed by Europe and Asia-Pacific which stood at ~USD 335-340 billion and ~USD 265-270 billion, respectively, during the corresponding year.

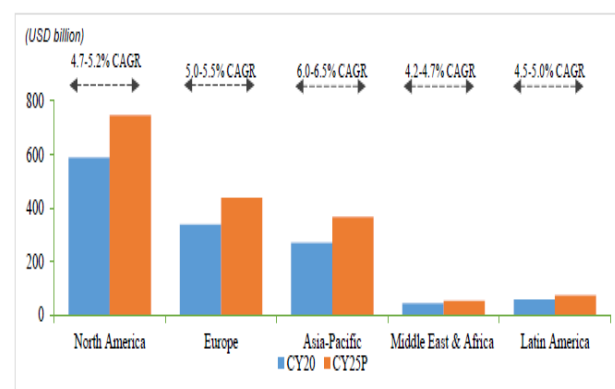
Region-wise segmentation of global pharmaceutical market



P: Projected  
Source: Mordor Intelligence, CRISIL Research

Source: Geojit Research, RHP

Region-wise global pharmaceuticals market outlook (USD billion)



Emerging Asia comprises the ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand, Vietnam) economies, China, and India. Emerging markets are expected to grow faster than the overall global pharmaceutical market.

## Promoter and promoter group

Mr. Satish Waman Wagh, is the Promoter of the company. The Promoter currently hold an aggregate of 72,642,380 Equity Shares, aggregating to 99.3% of the pre- Offer issued, subscribed and paid-up Equity Share capital of the company.

## Brief Biographies of directors

The Board comprises of 10 Directors of which five are Wholetime Directors (including the Chairman and Managing Director) and five are Independent Directors (including one independent woman Director).

- **Satish Waman Wagh**, is the Chairman &Managing Director of the Company. He has been a director on the Board since incorporation.
- **Smita Satish Wagh** is a Whole-time Director of the Company. She has been a director on the Board since incorporation.
- **Saloni Satish Wagh** is a Whole-time Director of the Company.
- **Shivani Satish Wagh** is a Whole-time Director of the Company.
- **Balasaheb Gulabrao Sawant** is a Whole-time Director of the Company.
- **Kedar Shankar Karmarkar** is an Independent Director of the Company.
- **Bhairav Manojbhai Chokshi** is an Independent Director of the Company.
- **Neelam Yashpal Arora** is an Independent Director of the Company.

CONSOLIDATED FINANCIALS

PROFIT & LOSS

Y.E March (Rs cr)	FY20	FY21	H1FY22
Sales	311.6	385.4	224.8
% change	12.2	23.7	-
EBITDA	98.4	167.3	93.4
% change	52	70	-
Depreciation	6.4	6.7	4.9
EBIT	92.0	160.6	88.5
Interest	6.8	4.1	2.0
Other Income	11.1	10.9	5.3
Exceptional Items	-	-	-
PBT	96.2	167.4	91.7
% change	69	74.0	-
Tax	22.8	43.6	25.7
Tax Rate (%)	24	26	28
Reported PAT	73.4	123.8	66.0
Adj	-	-	-
Adj. PAT	73.4	123.8	66.0
% change	86.2	68.7	-
Post issue No. of shares (cr)	8.05	8.05	8.05
Adj EPS (Rs)	9.1	15.4	8.2
% change	86.2	68.7	-

BALANCE SHEET

Y.E March (Rs cr)	FY20	FY21	H1FY22
Cash	1.5	43.5	78.6
Accounts Receivable	52.5	73.7	84.4
Inventories	49.5	72.5	88.5
Other Cur. Assets	94.5	76.7	68.5
Investments	0.2	0.5	0.5
Deff. Tax Assets	-	-	-
Net Fixed Assets	94.8	97.1	146.4
CWIP	40.2	78.8	34.2
Intangible Assets	3.2	3.0	3.1
Other Assets	-	-	-
Total Assets	336	446	504
Current Liabilities	71.9	59.2	63.0
Provisions	10.0	10.8	15.2
Debt Funds	103.1	91.7	72.9
Other Fin. Liabilities	-	-	-
Deferred Tax liability	2.2	15.2	18.1
Equity Capital	14.6	14.6	14.9
Reserves & Surplus	134.6	254.3	320.2
Shareholder's Fund	149.2	268.9	334.9
Total Liabilities	336	446	504
BVPS (Rs)	19	33	42

CASH FLOW

Y.E March	FY20	FY21	H1FY22
PBT Adj.	96.2	167.4	91.7
Non-operating & non cash adj.	10.2	5.3	3.9
Changes in W.C	9.6	-9.28	-7.97
C.F.Operating	116.1	79.9	15.9
Capital expenditure	-24.5	-48	-55
Change in investment	-	-	-
Sale of investment	-	-	-
Other invest.CF		0.83	45.04
C.F - investing	-24.5	-47.4	-9.6
Issue of equity	-	-	-
Issue/repay debt	-13.8	-16.0	-1
Dividends paid	-17.6	-4.0	-
Other finance.CF	2.2	5.0	2.9
C.F - Financing	-29.2	-14.9	1.8
Change. in cash	62.3	18.0	8
Closing cash	75	92	100

RATIOS

Y.E March	FY20	FY21	H1FY22
Profitab. & Return			
EBITDA margin (%)	31.6	43.4	41.6
EBIT margin (%)	29.5	41.7	39.4
Net profit mgn.(%)	23.6	32.1	29.3
ROE (%)	49.2	46.0	19.7
ROCE (%)	17.8	20.7	8.8
W.C & Liquidity			
Receivables (days)	66	60	28
Inventory (days)	106	174	76
Payables (days)	58	48	22
Current ratio (x)	2.4	3.8	4.1
Quick ratio (x)	0.8	2.0	2.6
Turnover &Levg.			
Net asset T.O (x)	3.5	4.2	2.0
Total asset T.O (x)	1.1	1.1	0.5
Int. covge. ratio (x)	13.4	39.4	43.5
Adj. debt/equity (x)	0.7	0.3	0.2
Valuation ratios			
EV/Sales (x)	7.4	6.0	10.1
EV/EBITDA (x)	23.5	13.7	11.9*
P/E (x)	30.0	17.8	16.7*
P/BV (x)	14.8	8.2	4.1*

\*Annualised.



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