

# SUPRIYA LIFESCIENCE LTD

Initiating Coverage



2<sup>nd</sup> July, 2022

## Supriya Lifescience Limited

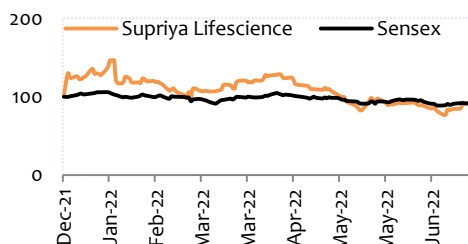
### Recommendation

CMP (INR)	351
Target Price (INR)	410
Upside	16.8%
Rating	BUY
Sector	Pharma

### Market Data

Shares outs (Mn)	80.4
Equity Cap (INR Mn)	161
Mkt Cap (INR Mn)	28,282
52 Wk H/L (INR)	602/293
Volume Avg (3M in K)	373.2
Face Value (INR)	2
Bloomberg Code	SUPRIYA IN

### Price Chart



SENSEX	52,908
NIFTY	15,752

### Shareholding Pattern (%)

Particulars	Mar-22	Dec-21	Sep-21
Promoters	68.24	68.24	-
FIIIs	7.13	10.30	-
DIIIs	7.73	7.90	-
Others	16.90	13.56	-
Total	100	100	-

## Company Snapshot

**Supriya Lifescience Ltd (SLL)**, established in 2008 is one of the leading manufacturers and suppliers of active pharmaceuticals ingredients (“APIs”) globally. SLL caters through its niche product offerings of 38 APIs with focus on diverse therapeutic segments. It is a leader in therapeutic segments like Anti-Histamines, Anti-Allergic, Anti-Asthmatics, Anesthetic & Vitamins. It operates through a modern state of art manufacturing facility located in Parshuram Lote, Maharashtra and the facility is certified by USFDA, EDQM, EUGMP, NMPA & Health Canada. It exports its products to 86 countries to 1,296 customers including 346 distributors.

## Outlook

SLL’s operations has wide and diversified presence globally. It has niche product offering across different therapeutic areas. It is poised for growth with capacity ramp up and with the support of experienced team. SLL’s long-standing relationship with the customers are a result of consistent product quality and reliability of supply.

We believe SLL is well placed with its leadership position in niche products, its focus on registering existing products in regulated markets and backward integrated facilities with geographical diversification should help uphold the momentum in the coming years. Currently it is trading at 16.65x/14.13x on FY23E/24E earnings. SLL made a solid debut in December 2021 at INR 425, listing at a premium of 55% to the issue price. We initiate coverage on stock with “BUY” rating as all the above mentioned factors provides good growth opportunities and recommend a target price of INR 410/share, applying PE multiple of 16.5x on FY24E EPS, indicating upside potential of 16.8% from CMP.

## Key Financials

Particulars (INR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	2,858	3,227	3,962	5,375	6,236	7,296
EBITDA	728	1,095	1,782	2,215	2,388	2,809
PAT	394	734	1,238	1,518	1,697	2,000
EPS	5.39	10.03	16.92	18.86	21.08	24.85
EBITDA Margin (%)	25.45%	33.92%	44.96%	41.21%	38.30%	38.50%
PAT Margin (%)	13.79%	22.75%	31.25%	28.23%	27.21%	27.41%

Source: KRChoksey Research

## Investment Rationale

### Strong foothold in well recognised niche products:

SLL's products are well recognised by the major pharmaceutical players across the globe. It enjoys well-established presence in the API market by catering to diverse therapeutic segments. SLL has been a R&D driven company and its continuous focus towards enhancement and expanding its R&D facility has played a key role in establishing its position. SLL'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 the product and scale-up the production. It mainly focuses on products which are high on value and low on competition which helps it derive relatively higher returns. At present it manufactures and supplies 38 APIs that finds application in therapies like antihistamine, analgesic, anaesthetic, vitamin, antiasthmatic and anti-allergic etc. It has consistently been the largest exporter of few products namely Chlorpheniramine Maleate and Ketamine Hydrochloride from India, contributing to 45-50% and 60-65%, respectively, of the API exports from India, between Fiscal 2017 and 2022. It was also amongst the largest exporter of Salbutamol Sulphate in terms of volume from India in Fiscal 2021. SLL's 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 USFDA, EDQM, NMPA (previously known as SFDA), KFDA, PMDA, TGA and Taiwan FDA.

### Backward integrated facility and expansion of market presence:

SLL's manufacturing capabilities range from development of simple molecules to highly complex molecules with expertise in different class of reactions. It implemented backward integration for its API products with an attempt to exercise greater control over the supply chain process (intermediates). Its R&D efforts are primarily focused across the value chain of API process development which is backed by a team of 23 scientists. 12 out of its total existing products are backward integrated, which contributed 67.14%/68% of its total revenue for FY21 and for FY22. This is a bold move with the expectation that the process will result in cost savings, increased revenues, and improved efficiency in the production process. It helps the company to have sustainable business and reduce dependency on external sources key strengths. With that it also helps ensure quality check and security of availability of essential raw materials which acts as one of its key strengths. The company intends to continue to grow their sales in existing geographies in Latin America, North America, Europe, Asia and Middle East, and to grow their market share in these markets by increasing their product portfolio in these markets and by leveraging their existing relationships with customers.

### De-risking of portfolio and scale up of molecules on cards:

The company is further diversifying its product portfolio with strong product pipeline. Focus mainly remains to eliminate the risk associated with dependence on few API's. Some of the new products have already been launched this year and has started complementing with the existing therapies like Decongestant molecules goes in combination with anti-steroidal, anti-allergy. SLL is in the process of commencing commercial production. SLL has filed 14 active DMFs with the USFDA and 8 active CEP's with EDQM for their API products in therapeutic areas such as antihistamine, analgesic, anaesthetic, vitamin, antiasthmatic 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 them in developing their business. SLL has started the capex for 'E' Block and the work is in progress at Lote, Parshuram with capacity of 340 KL to replace old block with 145 KL capacity. A new manufacturing block with capacity of 70 KL along with a new R&D facility with Pilot plant is also being set up at Ambarnath. Scale up of the newer products would be coming from the new block as the total capacity will increase from 547 KL to 810 KL by Q1 FY24 .

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## Company Overview

**Supriya Lifescience Ltd (SLL)**, established in 1987 is a global leading manufacturer and supplier of active pharmaceuticals ingredients (“APIs”) with focus on R&D. It has a well-established presence in the API market with niche product offerings of 38 APIs with focus on diverse therapeutic segments. It is a leader in therapeutic segments like Anti-Histamines, Anti-Allergic, Anti-Asthmatics, Anesthetic & Vitamins. They have consistently been the largest exporter of Chlorpheniramine Maleate and Ketamine Hydrochloride from India. They were among the largest exporters of Salbutamol Sulphate contributing to 31% of the API exports from India in FY 2021 in volume terms.

SLL is **promoted by Dr. Satish Wagh**, a first generation entrepreneur having an enriching experience of over 35years in the pharmaceutical industry.

The company **conducts its operations through** a modern state of art manufacturing facility located at **Lote, Chiplun in Maharashtra**. The manufacturing facility is spread across 23,806 sq.mts, having reactor capacity of 547 KL/ day and 7 cleanrooms. They have 4 manufacturing blocks which are segregated therapeutic segment wise. The 4th block commenced operation in May 30, 2021. It’s manufacturing facility has received approvals for its products being exported from various jurisdictions including USFDA, EDQM, TGA-Australia, KFDA-Korea, EUGMP, PMDA Japan, NMPA (previously known as SFDA)- China, Health Canada.

### Capacity utilization:

Particulars	FY19	FY20	FY21	FY22
Block A,B,C	63%	63%	71%	71%
Block D	-	-	-	35%

Source: KRChoksey Research

It exports its products to 86 countries to 1,296 customers including 346 distributors. The total revenue (from each business segment) for the respective periods is listed below:

Particulars	FY19	FY20	FY21	FY22
Export sales	70.96%	71.85%	77.47%	76.00%
Domestic sales	29.04%	28.15%	22.53%	24.00%

Source: KRChoksey Research



## Company Overview

Export business is broadly categorised into Regulated and Semi-regulated markets.

Markets	FY19	FY20	FY21	FY22
Regulated	34.03%	32.60%	38.17%	53.00%
Semi-regulated	65.97%	67.04%	61.83%	47.00%

Source: Company, KRChoksey Research

**Regulated markets** includes USA, China, Japan, Germany, Spain, Indonesia, South Korea and Switzerland, while Brazil, Mexico, Chile, Taiwan, Malaysia, Bangladesh, South Africa, Kenya, Jordan and Egypt are **semi-regulated/non regulated markets**.

**Over the years SLL has been successful in growing its API business across several countries.**

Region	Country	Therapy	Market
Asia	South Korea	Anti-histamine, vitamin, analgesic, Anti-allergic	Regulated
Asia	Cambodia, HongKong, Singapore, Phillipines, Sri Lanka, Taiwan, Malaysia, Thailand, Vietnam, Bangladesh	Anti-histamine, vitamin, analgesic, Anti-allergic, Anti-asthmatic	Semi regulated & Non regulated
Asia	Japan	Chlorpheniramine Maleate	Regulated
Europe	UK, Germany, Netherland, Spain, Switzerland, Belgium, Italy, France	Analgesic, anti-hypertensive, ant-allergic, anti-histamine, analgesic, vitamin and anti-asthmatic	Regulated
LATAM	Argentina	Anti-histamine, anti-allergic, analgesic and anti-asthmatic	Non regulated
LATAM	Brazil	Anti-histamine, anti-allergic, analgesic and anti-asthmatic	Regulated
LATAM	Venezuela, Chile	Anti-histamine and analgesic	Semi regulated & Non regulated
LATAM	Columbia, Mexico, Peru	Anti-histamine, anti-allergic, analgesic, vitamin and anti-asthmatic	Semi regulated & Non regulated
North America	USA, Canada	Anti-hypertensive, anti-histamine, decongestant, anti-allergic, analgesic, vitamin and anti-asthmatic	Regulated

Source: Company, KRChoksey Research

## Company Overview

### Product basket:

Its R&D efforts are demonstrated by strong API portfolio:

Following is the detail of some of its leading API products which it manufactures and supplies to both domestic and export markets, serving the niche therapeutic areas:

Product	Therapeutic area	Certification/Dossiers
Chlorpheniramine Maleate	Antihistamine	EDQM Approval, US DMF, CEP, Health Canada, Taiwan FDA, NMPA DMF, EDMF
Brompheniramine Maleate (BPM)	Antihistamine	US DMF, NMPA DMF, CEP, EDMF
Pheniramine Maleate	Antihistamine	US DMF, , CEP, EDMF, NMPA DMF
Dexchlorpheniramine Maleate	Antihistamine	US DMF, EDMF
Mepyramine Maleate	Antihistamine	US DMF, CEP, EDMF
Ketamine Hydrochloride	Analgesic/Antipyretic/Anesthetic	US DMF, CEP, TGA DMF, Canadian DMF (Human Use & Veterinary), EDMF
Tramadol Hydrochloride	Analgesic/Anti-pyretic/Anesthetic	Korean FDA, EDMF
Riboflavin 5 - Phosphate Sodium	Vitamin	US DMF, EDMF, Kosher, Indonesian Halal, Maharashtra Halal, FAMI-QS, CEP applied
Salbutamol Sulphate	Anti-asthmatic	EDMF, CEP
Cetirizine Dihydrochloride	Anti-allergic	EDMF
Diphenhydramine 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, Kosher, Halal India, Halal Indonesia

Source: Company, KRChoksey Research

## Company Overview

SLL has established **long standing relationships** with some of its key customers. Most of them have been doing business with the company since a long period.

Customer name	Country	Key products supplied
Mankind Pharma	India	Methylcobalamine, Bisoprolol Fumrate, Chlorpheniramine Maleate
Acme Generics LLP	India	Methylcobalamine, Chlorpheniramine Maleate, Tramadol
Akums Drugs & Pharma Ltd	India	Methylcobalamine, Bisoprolol Fumrate, Chlorpheniramine Maleate, Levosalbutamol Sulphate, Bupropion Hydrochloride
American Int Chemical Inc	USA	Brompheniamine Malate, Chlorpheniramine Maleate, Dexchlorpheniramine Malate, Diphenhydramine, Ppyrilamine Maleate
Saun Farma Inc	USA	Ketamine Hydrochloride, Mythylcobalamin, Ppyrilamine Maleate
Almat Pharmachem Inc	Canada	Ppyrilamine Maleate, Diphenhydramine Hydrochloride
Ampak Company Inc	USA	Diphenhydramine, Dextromethorphan Hydrobromide, Ppyrilamine Maleate, Chlorpheniramine Maleate
LNK International Inc	USA	Ppyrilamine Maleate, Chlorpheniramine Maleate
Syntec Do Brasil LTDA	Brazil	Ketamine Hydrochloride
AT Planejamento e Desenvolvimento de Negocios LTDA	Brazil	Ketamine Hydrochloride, Dexchlorpheniramine, Chlorpheniramine Maleate, Pheniramine Maleate, Brompheniramine Maleate

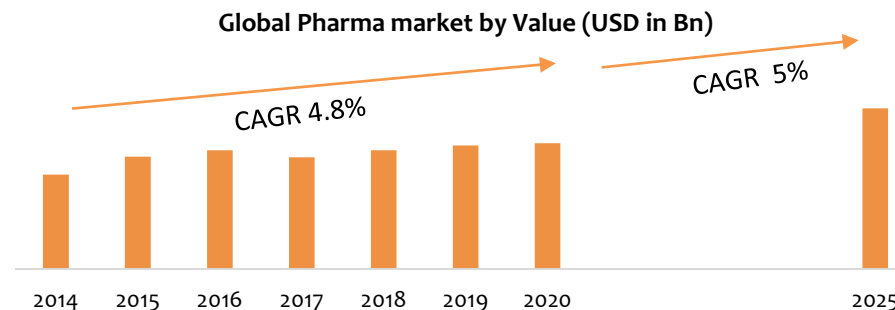
Source: Company, KRChoksey Research



## Industry Overview

### Overview of Global Pharmaceutical industry:

Global pharmaceutical market is expected to grow at a steady ~5% CAGR from 2020 to 2025. It 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.



Source: Mordor Intelligence, Pharma Company reports, CRISIL Research

### Emerging markets are expected to grow faster than the overall global pharmaceutical market:

Emerging markets represent an exceptional opportunity for the pharmaceutical industry on account on expected rise in healthcare spending from current low levels and increase in per capita income to support this rise in expenditure. Emerging markets comprise of Brazil, India, China, South Africa, Asean-5. Emerging Asia comprises the ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand, Vietnam) economies.

### Region-wise segmentation of global pharmaceutical market



Source: Mordor Intelligence, CRISIL Research

■ North America ■ Latin America ■ Asia Pacific ■ Europe ■ Middle east & Africa

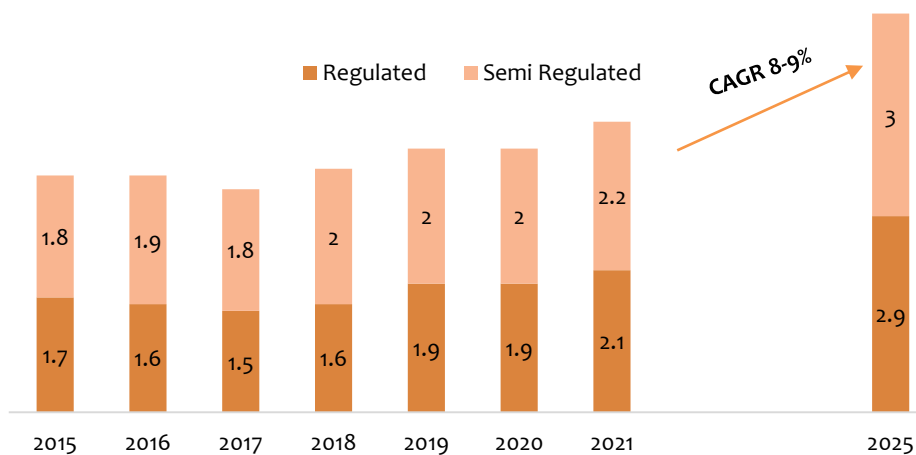
■ North America ■ Latin America ■ Asia Pacific ■ Europe ■ Middle east & Africa

## Industry Overview

### Overview of Indian bulk drug industry:

Indian bulk drug industry ranks third globally in terms of volume, after China and Italy. Export of Indian bulk drugs produced accounts for 35% and the remaining bulk drugs are sold in the domestic market, including captive consumption by several large formulation players. India being the largest provider of generic drugs globally contributes around 20% in global supply in terms of volume. India ranks lower in terms of value of pharmaceutical at 14th position as compared to 3rd position in ingredients (APIs), especially in regulated markets, compared with China. This is on account of its advanced process chemistry skills.

**Bulk drug export outlook (USD in Bn)**



Source: DGCIS, CRISIL Research

### India enjoys cost advantage over regulated markets:

Over the years manufacturing costs of Indian bulk drug players have tend to be lower than in the regulated markets of the United States (US) and Europe. China enjoys competitive advantage as a major exporter of bulk drug intermediates globally mainly 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 ingredient 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.

## Industry Overview

### Top demand drivers for Indian bulk drug industry:

#### Supply chain disruptions in China to bode well:

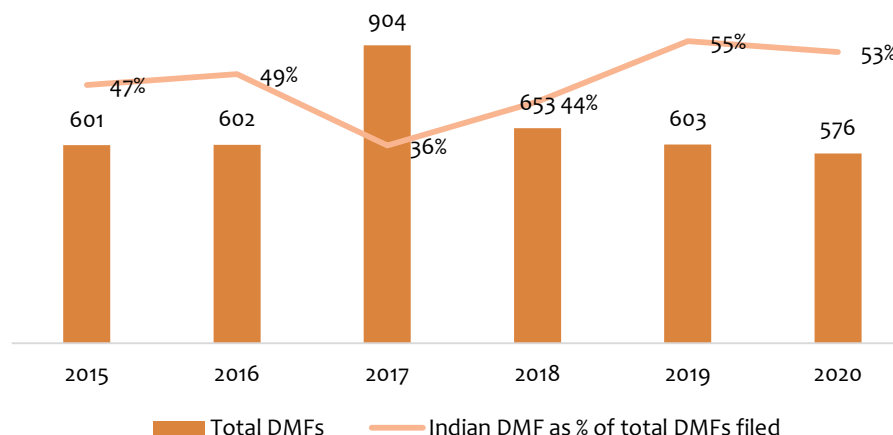
China is facing lot of issues in terms of supplying bulk drugs/API to its customers since the coronavirus pandemic breakout. This has led to constant rise in the prices of these drugs. Even though, supply from China has resumed, it is having quality issues in recent times which has helped India to gain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

#### Environmental crackdown led to China +1 strategy:

The manufacturing players in China got largely affected from 2017 due to its environmental crackdown. 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. This will help to enhance supply chain resilience by diversifying sourcing/manufacturing activities into other countries. Increasing enquiries and acceptance for India's products from global innovators makes the domestic API manufacturers chances higher to be the second source and gradual shift from China to India.

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

**India is considerably ahead of its competitors in terms of the total number of DMFs**



Source: USFDA, CRISIL Research

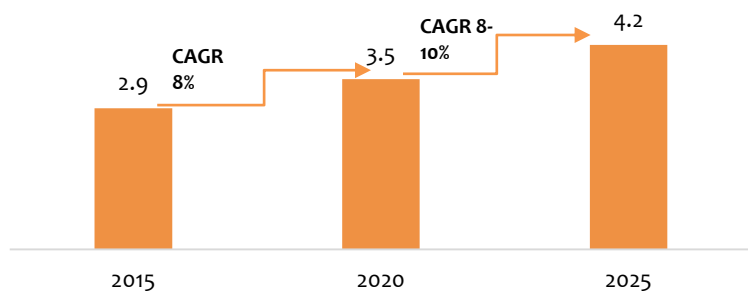
## Industry Overview

### Types of therapeutic areas and its size:

#### Anti-histamine and anti-allergy:

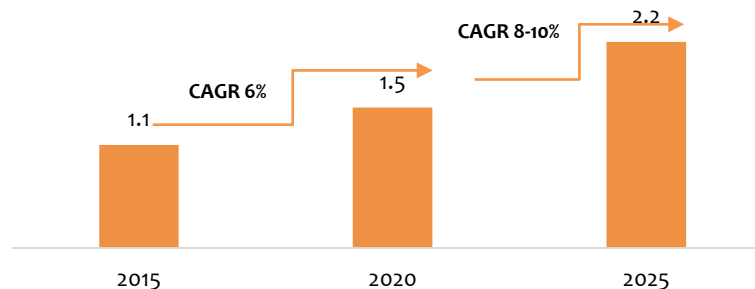
US is the largest market globally due to rising prevalence of allergy rhinitis and rising demand for diagnosis and treatment of allergic disease. Europe is the second largest end market that holds a noticeable share of the global antihistamine drugs market. In Asia Pacific, increase in the demand for drugs for the treatment of allergies and skin diseases is driving the market growth. Also the Middle East & Africa, market continues to show steady positive growth due to the rising prevalence of nasal allergies. The anti-histamine and anti-allergy therapeutic API market is expected to grow driven by rise in healthcare spending by public and government and penetration of pharmaceutical drugs with increased share of generic drugs.

**Growth of anti-histamine and anti-allergy (USD in Bn)**



Source: Lifescience Intellipedia, CRISIL Research

**Growth of Vitamins (USD in Bn)**



Source: Lifescience Intellipedia, CRISIL Research

#### Vitamins:

The growth in the vitamins market is marked by increased awareness about nutraceuticals benefits and increased prevalence of vitamin deficiencies due to dietary changes. The global vitamins market has been segmented largely based on type of vitamins as vitamin B, vitamin C, vitamin E etc. According to WHO, in 2018, more than 2 billion people were suffering from micronutrient deficiencies, thus leading to consumption of some or other vitamins. Also the growing birth rates and senior citizens in developing countries is leading to growth of paediatric and calcium vitamins. 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.

## Industry Overview

### Pain Management:

Global pain management market is estimated at USD 7.8 billion in 2020. The market grew at a CAGR of 4.5% between 2015 and 2020. Growth in the pain management market was driven by rise in surgeries and medical procedures, incidence of flu and fever. The segment is expected to see a growth of 5.0% over the next five years from 2020 to 2025 and reach USD 10 billion supported by increased surgeries, increased incidence of chronic diseases, and rise in flu related illness with rapidly changing climatic changes.

### Anti-hypertension:

Global anti-hypertension therapeutic area API market is estimated at USD 10.4 billion in 2015. The market grew at a CAGR of 4.5% from 2015 to USD 13 billion in 2020. Anti-hypertensive drugs form 2.6% of total spending on pharmaceutical drugs across the globe in value term. It likely to touch USD 16 billion in 2025 at CAGR of 3-4% between 2020-2025. Trend analysis show the number of adults with hypertension increased from 594 million in 1975 to 1.13 billion in 2015. This increase is largely from low- and middle-income countries. But in terms of value North America accounts for the largest antihypertensive drugs market share. Increased prevalence of hypertension among working population and rising awareness about the risk factors, prevention, diagnosis, and treatment of high blood pressure in the US is one of the major reasons for the higher sales of the antihypertensive drug

Regions	Incidence rate of hypertension
Africa	27%
South east Asia	25%
Europe	23%
Eastern Mediterranean	26%
Western Pacific	19%
American continent	18%
Global	22%

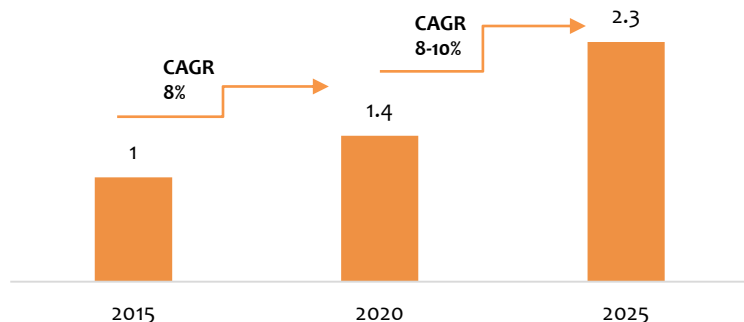
Source: Lifescience Intellipedia, CRISIL Research

## Industry Overview

### Anti-gout:

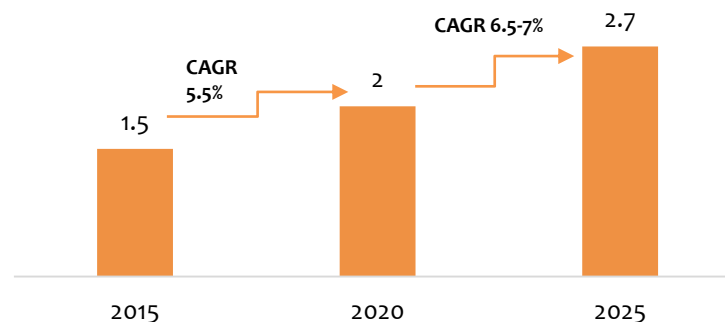
The incidence of gout has more than doubled over the recent 20 years that in from 1990's to 2020's. This increase together along with occurrence of comorbid conditions such cardiovascular risk, renal disease, diabetes mellitus represents a significant health challenge. North America held the largest market share in consumption, followed by Europe, due to increase in research and development on anti-gout drugs in the regions. Asia Pacific market is expected to grow at a rapid pace over the next five years due to increase in government initiatives for the health care sector. The anti-gout Pfizer, Inc Casper Pharma AR Scientific, Inc Teva Pharmaceutical Industries Takeda Pharmaceutical AstraZeneca Plc Iroko Pharmaceuticals Hikma Pharmaceuticals Horizon Pharma Mylan 127 drugs market in Latin America and Middle East & Africa is projected to grow at a moderate pace during the forecast period.

**Growth of Anti-gout therapy (USD in Bn)**



Source: Lifescience Intellipedia, CRISIL Research

**Growth of Anti-asthmatic therapy (USD in Bn)**



Source: Lifescience Intellipedia, CRISIL Research

### Anti asthmatic:

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. According to industry interactions anti-asthma drugs market is expected at USD 25-30 billion in 2021-2022. The anti-asthmatic therapeutic area API market is expected to clock 6.5% 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.



## Investment Rationale – Strong foothold in well recognised niche products

- **SLL’s products are well recognised** by the major pharmaceutical players across the globe. It enjoys well-established presence in the API market by catering to diverse therapeutic segments.
- At present it **manufactures and supplies 38 APIs** that finds application in therapies like antihistamine, analgesic, anaesthetic, vitamin, antiasthmatic and anti-allergic etc.
- It has consistently been the **largest exporter** of few products namely Chlorpheniramine Maleate and Ketamine Hydrochloride from India, contributing to 45-50% and 60-65%, respectively, of the API exports from India, between Fiscal 2017 and 2022. It is also amongst the largest exporter of Salbutamol Sulphate in terms of volume from India in Fiscal 2021.
- SLL has been a R&D driven company and its continuous focus towards enhancement and expanding its R&D facility has played a key role in establishing its position.
- SLL’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 the product and scale-up the production.
- It mainly **focuses** on products which are **high on value and low on competition** which helps it derive relatively higher returns.
- SLL’s top 10 customers account for 47% of revenue as on FY221. It’s products are exported to 86 countries including both regulated as well as semi/non regulated markets through its own marketing and distribution network as well as by entering into distribution arrangements with pharmaceutical distributors in these markets.
- The products are registered with various international regulatory authorities such as USFDA, EDQM, NMPA (previously known as SFDA), KFDA, PMDA, TGA and Taiwan FDA.
- It is registering a group of about **8 to 10 products** in regulated markets like Europe, US, China, Latin America, Japan namely Diphenhydramine or Tramadol, Hydrochloride, Dextromethorphan, Allopurinol, Bisoprolol Fumarate, Riboflavin, Diphosphate Sodium. We expect increasing revenue contribution

coming from these products in the next couple of years.

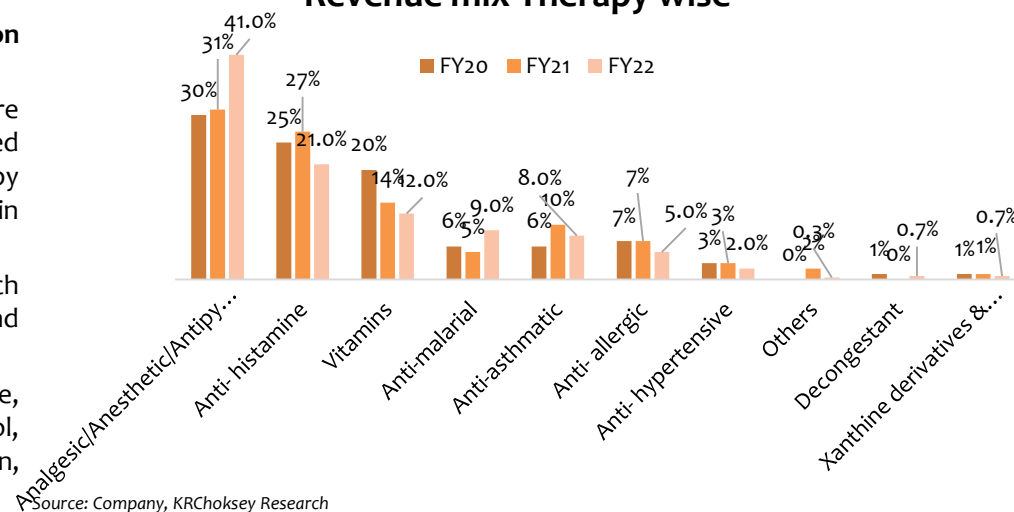
- We believe with its existing market presence and product portfolio, it is well positioned to capitalise on the expected growth in focused therapeutic areas.

### Export sales for top products

Product Sale (INR in Mn)	FY19		FY20		FY21	
	India	SLL	India	SLL	India	SLL
<b>Chlorpheniramine Maleate</b>	471	399	665	493	805	579
<b>Ketamine</b>	754	492	1,092	703	1,620	951
<b>Salbutamol Sulphate</b>	148	585	400	149	807	304

Source: Company, KRChoksey Research

### Revenue mix Therapy wise



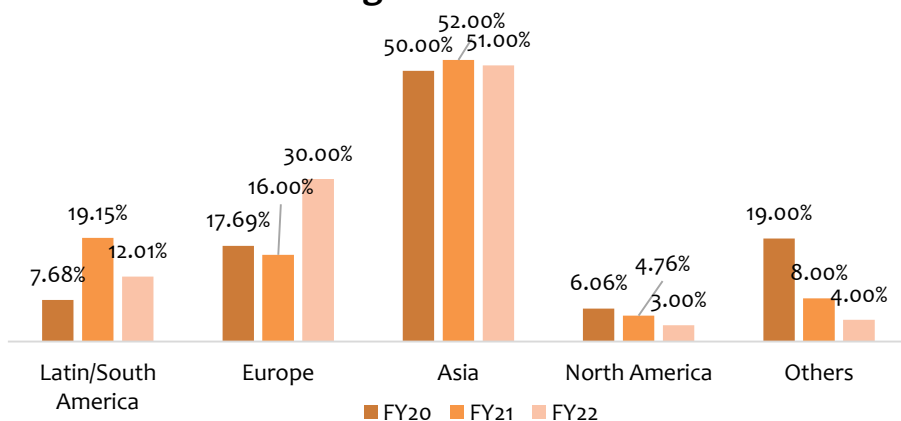
## Investment Rationale - Backward integrated facility and expansion of market presence

- SLL's manufacturing capabilities range from **development of simple molecules to highly complex** molecules with expertise in different class of reactions.
- It implemented backward integration for its API products with an attempt to exercise greater control over the supply chain process (intermediates). It's R&D efforts are primarily focused across the value chain of API process development which is backed by a team of 23 scientists.
- 12 out of its total existing products** are backward integrated, which contributed 67.14%/68% of its total revenue for FY21 and for FY22.
- This is a bold move with the expectation that the process will result in **cost savings**, increased revenues, and improved efficiency in the production process. It helps the company to have sustainable business and **reduce dependency** on external sources key strengths. With that it also helps ensure quality check and security of availability of essential raw materials which acts as one of its key strengths.
- The company **intends to grow** their sales in existing geographies in Latin America, North America, Europe, Asia and Middle East, and to grow their market share in these markets by increasing their product portfolio in these markets and by leveraging their existing relationships with customers.
- They intend to create strong local presence and expertise with required infrastructure and develop capabilities to exploit growth potential offered by the relevant markets. Their growth strategy may vary from country to country depending on factors such as applicable regulatory requirements, competition and pricing.
- We believe with such advantage of being backward integrated has helped it gain a competitive advantage in the industry.

### List of backward integrated products as % of topline

Product	FY21	1HY22
Chlorpheniramine Maleate	18.17%	24.23%
Brompheniramine Maleate (BPM)	1.13%	0.45%
Pheniramine Maleate	2.50%	1.29%
Dexchlorpheniramine Maleate	2.48%	2.08%
Mepyramine Maleate	1.64%	1.09%
Ketamine Hydrochloride	27.42%	19.11%
Salbutamol Sulphate	9.86%	8.80%
Bisoprolol fumarate	3.05%	1.23%
Levosalbutamol Sulphate	0.42%	0.63%
Dextromethorphan Hydrobromide	0.34%	0.99%
Dexbrompheniramine Maleate	0.12%	0.10%
Allopurinol	0%	0.17%

### Region wise business mix



Source: Company, KRChoksey Research

## Investment Rationale – De-risking of portfolio and scale up of molecules on cards

- The company is further **diversifying its product portfolio** with strong product pipeline. Focus mainly remains to eliminate the risk associated with dependence on few API's. This **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 9MFY22 and has started complementing with the existing therapies like Decongestant molecules goes in combination with anti-venereal, anti-allergy.
- Initial phase of production and distribution of samples for Dextromethorphan Hydrobromide, Pentoxifylline, (S)-Ketamine Hydrochloride and Allopurinol to different customers has begun, primarily in unregulated markets. SLL is in the process of **commencing commercial production**.
- It also intends to improve the R&D capabilities, with a focus on capturing more high-value early mover advantage in key international markets. As of October 31, 2021, SLL has filed 14 active DMFs with the USFDA and 8 active CEP's with EDQM for their API products in therapeutic areas such as antihistamine, analgesic, anaesthetic, vitamin, antiasthmatic 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 them in developing their business.
- SLL has started the capex for 'E' Block and the work is in progress at Lote, Parshuram with capacity of 340 KL to replace old block with 145 KL capacity. A new manufacturing block with capacity of 70 KL along with a new R&D facility with Pilot plant is also being set up at Ambarnath. Scale up of the newer products would be coming from the new block as the total capacity will increase from 547 KL to 810 KL by Q1 FY24 .

- We believe that a diversified product portfolio would **diminish the risk associated** with the dependence on any particular therapeutic area and its plan to enhance its capacities for infusion of new products into the basket by further penetration into newer geographies should augur well for the company.

### Details of manufacturing facilities:

	Block A	Block B	Block C	Block D
Year of establishment	1993	1994	2014	2021
Reactor Capacity (per day)	157KL	145KL	30KL	215KL
Regulatory approved	Yes	Yes	Yes	Yes

Source: Company, KRChoksey Research

### Utilisation levels over the period:

Capacity utilisation %	FY20	FY21	FY22
Block A,B,C	63%	71%	71%
Block D	-	-	35%

Source: Company, KRChoksey Research

## Management

### **Dr. Satish Wagh, Chairman and Managing director**

He is the founder and has been on the board since inception. He holds a bachelor's degree in science from University of Mumbai and an honorary Ph.D. in entrepreneurship from Faculty of Management Studies, National American University. Apart from this, he is also a director on the boards of Supriya Medi-Chem Private Limited, Lote Industries Testing Laboratory Association and Sachin Industries Limited.

### **Shireesh Bhalchandra Ambhaikar, Chief Executive Officer**

He joined the company on July 6, 2021.

### **Ashish Ramdas Nayak, Chief Financial Officer**

He joined the company on August 5, 2019.

### **Smita Satish Wagh, Whole-time Director**

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.

### **Dr. Saloni Satish Wagh, Whole-time Director**

She holds a bachelor's and master's degree in science and a PhD in chemistry. She has been appointed since July 1, 2019.

### **Shivani Satish Wagh, Whole-time Director**

She holds a bachelor's degree in management studies from University of Mumbai and master's degree in international business management from Manchester Business School. She has been appointed since July 1, 2019.

### **Balasaheb Gulabrao Sawant, Whole-time Director**

He holds a bachelor's degree in science and a master's degree in science. He was previously associated with companies such as USV Limited, Encure Pharmaceuticals Ltd, Arch Pharmed Labs Ltd, Mylan Laboratories Ltd and Enaltec Labs Private Ltd.

## Result highlights Q4FY22:

- For Q4FY22, Total revenue grew by 37.17% YoY and 49.01% QoQ to INR 1,812 Mn. FY22 revenue stood at INR 5,201 Mn showing growth of 35.60% YoY.
- EBITDA grew by 11.90% YoY to INR 752 Mn for the quarter and EBITDA margin decreased by 937 bps YoY and improved 618 bps QoQ to 41.50%. Higher input costs dented the margins.
- For Q4FY22, PAT showed a de-growth of 4.74% YoY but was up 16.7% QoQ to INR 462 Mn, PAT margin contracted by 1122 bps YoY and by 707 bps QoQ to 25.50%. Lower PAT % in Q4FY22 is on account of lower provision of deferred taxes in earlier quarter.
- Recommended the Final Dividend of INR 0.60 per equity share.

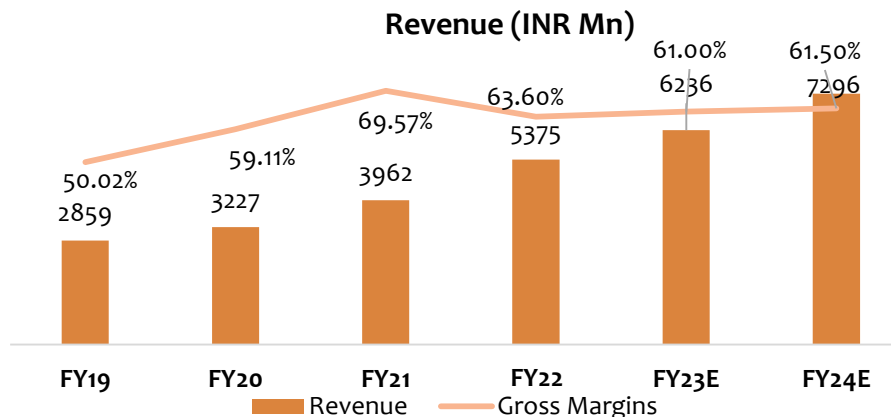
## Concall highlights key takeaways:

- SLL continued to hold the leadership position in its top 3 products Ketamine Hydrochloride, Salbutamol Sulphate, Chlorpheniramine Maleate during FY22.
- Larger part of growth was driven by backward integrated products from Antihistamine, Anesthetic and Vitamins in Q4FY22.
- Share in Regulated markets improved from 34% to 53% for FY22. Increased penetration in European and LATAM markets supported the growth.
- Blended utilization levels for all 4 blocks stood at 47% in FY22.
- It recently acquired 80,000 sq mtre from MIDC at Isambe Industrial Park dedicated for Pharma API.
- The delay in import shipments was offset by built-up in inventory of raw materials to ensure smooth operations.
- The company increased stock levels of solvents to minimise 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 led to higher receivables.
- It plans to reduce customer concentration by penetrating existing products in different geographies by registering these niche products and adding newer products that offer higher volume potential from new R&D center's.
- Company has taken additional steps for business expansion around the globe especially in North America market, Japan, Australia and New Zealand.
- It see's 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. Also with the new capacity being setup in Ambarnath 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 Ambarnath with a pilot plant for new molecules and CMO/CDMO.
- Already started the work on 'E Block' at Lote Parshuram with capacity of 340 KL to replace old block with 145 KL capacity.

## Financial Analysis

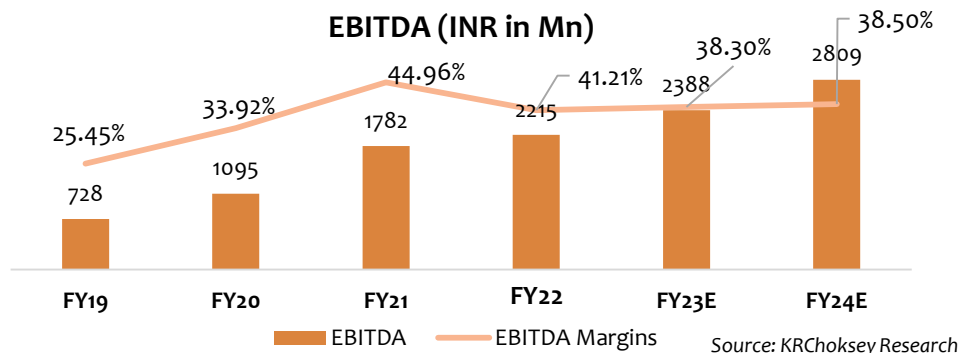
### Revenue

We expect SLL to clock a healthy 22.57% Revenue CAGR over FY21-FY24E, and expect revenue to touch INR 7,296 Mn in FY24E from INR 3,962 Mn in FY21. During FY21 lower input costs and better realisation for its products pushed the margins upwards. We believe its continuous focus towards diversifying the product portfolio, higher market share in key contributing products and penetration into newer geographies will aid growth in topline.



### EBITDA and EBITDA margin

We expect SLL to report 16.39% EBITDA CAGR over FY21-FY24E and EBITDA margins to be around 38-39% till FY24E. EBITDA in absolute terms is expected to reach INR 2,809 Mn in FY24E from INR 1,782 Mn in FY21. Its shift towards regulated markets from semi and non-regulated markets and focus towards higher value products will help it sustain higher double digit margin levels.





## Peer Comparison

We have made a comparison of SLL's business with some of the similar size companies conducting business in same area.

Particulars (Rs in Mn)	Revenue	EBITDA	EBITDA Margin	PAT	PAT Margin	CFO	ROCE	RONW
Supriya Life Science Ltd	5,375	2,215	41%	1,518	28%	488	34%	25%
Divi's Lab Ltd	89,600	38,820	43%	29,600	33%	19,120	35%	28%
Laurus Lab Ltd	43,960	14,220	29%	8,280	17%	9,110	23%	25%
Neuland Lab Ltd	9,510	1,430	15%	640	7%	590	9%	8%
Aarti Drugs Ltd	24,890	3,290	13%	2,050	8%	700	20%	21%
Granules Ind Ltd	32,380	6,450	20%	3,870	12%	2,800	16%	16%

\*Data as on FY22

KRChoksey Research, Screener.in

SLL being a niche player in most of the therapeutic segment has performed well as compared to the industry peers. It has been able to deliver best of the margins across the industry due to integrated facilities and focus towards high value low competition products. Its increasing penetration towards regulated market has helped it generate higher profits and return ratios. Overall between FY19-22 it has achieved a Revenue CAGR of 23.43% which is in line with its peers. On operational front it has delivered higher double digit CAGR of 44.93% and PAT CAGR of 56.72% being amongst the top performer.

We believe SLL's existing market presence and long standing customer relationship has bode well for the company. It has been able to uphold the momentum and maintain such strong performance. It is well positioned to capitalise on the expected growth with infusion of newer products into the basket which should augur well for the company in the coming years. Also its focus on registering existing products in regulated markets and backward integrated facilities with geographical diversification will aid future growth.

## Outlook and Valuation

SLL's operations has wide and diversified presence globally. It has niche product offering across different therapeutic areas. We believe SLL's has been a consistent performer due to its product quality and reliability of supply. It is poised for growth with capacity ramp up and with the support of experienced team.

### Key business growth drivers:

- Focus on high value and low competition products.
- Increasing penetration in regulated markets as compared to semi/non regulated markets.
- Reduce dependence and de-risking of its concentrated product portfolio.
- Increasing contribution from newer manufacturing facilities (Block D's capacity utilisation) will bring in cost efficiencies.
- It's plan to improve the R&D capabilities, with a focus on capturing more high-value early mover advantage in key international markets.
- Long standing relationship with its key customers.

## Valuation

(in Mn)	Market Cap	P/E	P/S	EV/EBITDA
Supriya Life Science Ltd	28,282	20.8	5.3x	13.6x
Divi's Lab Ltd	9,64,925	32.6	10.8x	24.1x
Laurus Lab Ltd	2,50,544	30.2	5.1x	18.9x
Neuland Lab Ltd	15,239	23.9	1.6x	12.4x
Aarti Drugs Ltd	36,818	18.0	1.5x	12.8x
Granules Ind Ltd	69,070	16.7	1.8x	10.6x

\*Data as on 1<sup>st</sup> July 2022, TTM basis

KRChoksey Research, Factset

We believe SLL is reasonably priced in comparison to its peers. It is well placed with its leadership position in niche products, its focus on registering existing products in regulated markets and backward integrated facilities with geographical diversification should help uphold the momentum in the coming years. Currently it is trading at 16.65x/14.13x on FY23E/24E earnings. SLL made a solid debut in December 2021 at INR 425, listing at a premium of 55% to the issue price. We initiate coverage on stock with "BUY" rating as all the above mentioned factors provides good growth opportunities and recommend a target price of INR 410/share, applying PE multiple of 16.5x on FY24E EPS, indicating upside potential of 16.80% from CMP.

## Key Risks and concerns:

- The company faces product concentration risk as top few API's contribute major portion of their revenue.
- Inability to develop and commercialise newer products in a timely manner will impact the future growth prospect of the company.
- Failure in complying with regulations & quality standards prescribed by export countries government and regulatory agencies may affect its business operations.
- The company's inability to effectively utilize its manufacturing capacities could have an adverse effect on the business.
- Development of alternate product for treatment of these therapies might adversely impact the business.
- Any fluctuations in exchange rate may largely impact the operations due higher amount of export sales.
- Deferment in receiving approvals for patents, licences and registrations can have a material effect on company's business, results of operations and financial condition.
- Reduction in demand for SLL's product from its customers will slowdown the company's operations.

## Financial Summary

Income Statement (INR Mn)	FY19	FY20	FY 21	FY 22	FY23E	FY 24E
Revenues	2,778	3,116	3,854	5,300	6,240	7,350
Other income	80	111	109	76	128	135
<b>Total Revenue</b>	<b>2,859</b>	<b>3,227</b>	<b>3,962</b>	<b>5,375</b>	<b>6,235</b>	<b>7,296</b>
COGS	1,461	1,524	1,406	1,958	2,432	2,772
<b>Gross profit</b>	<b>1,390</b>	<b>1,842</b>	<b>2,681</b>	<b>3,418</b>	<b>3,804</b>	<b>4,523</b>
Employee cost	190	256	328	491	530	620
Other expenses	473	492	572	712	885	1,094
<b>EBITDA</b>	<b>728</b>	<b>1,095</b>	<b>1,782</b>	<b>2,215</b>	<b>2,388</b>	<b>2,809</b>
Depreciation & amortization	54	64	67	101	141	160
Interest expense	102	68	41	42	0	0
<b>PBT</b>	<b>571</b>	<b>962</b>	<b>1,674</b>	<b>2,072</b>	<b>2,247</b>	<b>2,649</b>
Tax	177	228	436	554	551	649
Minority interest	0	0	0	0	0	0
<b>PAT</b>	<b>394</b>	<b>734</b>	<b>1,238</b>	<b>1,518</b>	<b>1,697</b>	<b>2,000</b>
<b>EPS (INR)</b>	<b>5.39</b>	<b>10.03</b>	<b>16.92</b>	<b>18.86</b>	<b>21.08</b>	<b>24.85</b>

Cash Flow Statement (INR Mn)	FY19	FY20	FY21	FY22	FY23E	FY 24E
Operating Cash Flow	487	1,161	799	4,88	1,887	1,734
Investing Cash Flow	49	(245)	(474)	(598)	(300)	(450)
Financing Cash Flow	(497)	(292)	(149)	1,497	(220)	(7)
Net Inc/Dec in cash equivalents	38	623	176	1,386	1,367	1,277
Opening Balance	86	124	747	923	2,309	3,676
Adjustments	0	0	0	0	0	0
Closing Balance Cash & Cash Equiv.	124	747	923	2,309	3,676	4,953

Key Ratio	FY19	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margins (%)	25.45%	33.92%	44.96%	41.21%	38.30%	38.50%
Net Profit Margin (%)	13.79%	22.75%	31.25%	28.23%	27.21%	27.41%
RoE <sup>^</sup> (%)	42.02%	49.20%	46.04%	24.65%	21.60%	20.30%
RoCE <sup>^</sup> (%)	65.45%	66.98%	63.27%	34.33%	28.61%	26.88%
RoA (%)	15.58%	21.83%	27.78%	20.65%	18.44%	17.47%
Debt/Equity	0.09x	0.01x	0.00x	0.00x	0.00x	0.00x

<sup>^</sup>ROE & ROCE has been adjusted with latest post issue equity for FY22E/23E/24E.

Balance Sheet (INR Mn)	FY19	FY20	FY21	FY22	FY23E	FY 24E
Property, plant and equipment	805	929	955	1,825	2,020	2,287
Right to use assets	22	18	15	58	73	100
Capital work in progress	354	402	788	434	549	598
Intangible assets	20	32	30	15	13	13
Financial assets						
Investments	1	1	1	1	1	150
Other financial assets	0	2	4	0	4	4
<b>Total non current assets</b>	<b>1,201</b>	<b>1,384</b>	<b>1,793</b>	<b>2,372</b>	<b>2,700</b>	<b>3,192</b>
Current assets						
Inventories	307	495	725	923	1,093	1,279
Financial assets						
Trade receivables	600	525	737	1,152	1,230	1,439
Cash and cash equivalents	17	15	436	2,279	3,676	4,953
Other financial assets	107	732	488	60	60	60
Loans and advances	124	10	12	6	6	6
Other current assets	175	203	266	555	437	515
<b>Total current assets</b>	<b>1,329</b>	<b>1,979</b>	<b>2,664</b>	<b>4,975</b>	<b>6,502</b>	<b>8,252</b>
<b>TOTAL ASSETS</b>	<b>2,531</b>	<b>3,363</b>	<b>4,457</b>	<b>7,348</b>	<b>9,202</b>	<b>11,444</b>
<b>EQUITY AND LIABILITIES</b>						
Equity						
Equity share capital	146	146	146	161	161	161
Other equity	792	1,346	2,543	5,996	7,693	9,692
<b>Total equity</b>	<b>938</b>	<b>1,492</b>	<b>2,689</b>	<b>6,157</b>	<b>7,854</b>	<b>9,853</b>
Liabilities						
Non-current liabilities						
Financial liabilities						
Borrowings	81	24	0	0	0	0
Lease liabilities	25	23	21	53	53	53
Other financial liabilities	33	186	195	0	0	0
Provisions	7	10	13	29	22	26
Deferred tax liabilities (Net)	97	75	80	111	184	240
<b>Total non-current liabilities</b>	<b>244</b>	<b>318</b>	<b>309</b>	<b>194</b>	<b>259</b>	<b>319</b>
Current liabilities						
Financial liabilities						
Borrowings	772	767	674	213	0	0
Trade payables	441	494	510	490	837	979
Other financial liabilities	45	31	27	8	0	0
Provisions	12	15	15	4	4	4
Other current liabilities	37	225	82	274	240	281
Current tax liabilities (Net)	41	22	152	0	0	0
<b>Total current liabilities</b>	<b>1,349</b>	<b>1,554</b>	<b>1,460</b>	<b>997</b>	<b>1,089</b>	<b>1,273</b>
<b>Total liabilities</b>	<b>1,593</b>	<b>1,872</b>	<b>1,769</b>	<b>1,191</b>	<b>1,348</b>	<b>1,591</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,531</b>	<b>3,364</b>	<b>4,458</b>	<b>7,348</b>	<b>9,202</b>	<b>11,444</b>

Source: KRChoksey Research, Company Research

**Rating Legend (Expected over a 12-month period)**

Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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