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SUPRIYA LIFESCIENCE LIMITED

December 16, 2021

SUPRIYA LIFESCIENCE LTD.

SMC Ranking

★★½☆☆ (2.5/5)

Issue Highlights

Industry	**Active pharmaceutical ingredients**
Offer for sale (Shares)	18,248,175
Fresh Issue (Shares)	7,299,270
Net Offer to the Public	**25,547,445**
Issue Size (Rs. Cr.)	677-700
Price Band (Rs.)	265-274
Offer Date	16-Dec-21
Close Date	20-Dec-21
Face Value	2
Lot Size	54

Issue Composition

	In shares
Total Issue for Sale	25,547,445
QIB	19,160,584
NIB	3,832,117
Retail	2,554,745

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	99.98%	68.24%
QIB	0.00%	23.81%
NIB	0.02%	4.78%
Retail	0.00%	3.17%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

Funding capital expenditure requirements of the company

Repayment and/ or pre-payment, in full or part, of certain borrowings availed by the company and

General corporate purposes

Book Running Lead Manager

- ICICI Securities Limited
- Axis Capital Limited

Name of the registrar

- Link Intime India Private Ltd

About the company

Supriya Lifescience is engaged in the manufacturing of Active pharmaceutical ingredients (APIs). As of March 31, 2021, the company produces 38 APIs focused on diverse therapeutic segments such as antihistamine, analgesic, anaesthetic, vitamin, anti-asthmatic and anti-allergic. The company has been the largest exporter of Chlorpheniramine Maleate and Ketamine Hydrochloride from India between Fiscal 2017 and 2021. In Fiscal 2021, the company's products were exported to 86 countries to 1,296 customers including 346 distributors. The company has API business in Europe, Latin America, Asia, and North America. The company's manufacturing facility has received approvals from USFDA, EDQM TGA-Australia, KFDA-Korea, PMDA Japan, NMPA (previously known as SFDA)- China, Health Canada, in relation to API products being exported to the relevant jurisdictions by the company.

Strength

Significant scale with leadership position across key & niche products: The company has a well-established presence in the API market. As of October 31, 2021, the company 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, contributing to 45-50% and 60-65%, respectively, of the API exports from India, between Fiscal 2017 and 2021. The company is among the largest exporter of Salbutamol Sulphate from India in Fiscal 2021 in term of volume. Its share in Salbutamol Sulphate exports have increased from 25-30% in Fiscal 2017 to 30-40% in Fiscal 2018 to Fiscal 2021. Salbutamol Sulphate, saw rise in demand in Fiscal 2021 on account of rise in demand for anti-asthmatic drugs. Exports of Salbutamol Sulphate from India saw a rise of 75-80% in Fiscal 2021, with major export destination being Singapore, USA, Thailand, China, Bangladesh, Germany and Indonesia. Further, the Company contributed to 25-30% of exports of Vitamin B2 (Riboflavin, Lactoplavin) and its salts from India in Fiscals 2017 to 2021 in terms of volume. It believes that a diversified product portfolio diminishes the risk associated with the dependence on any particular therapeutic area. As a result of its existing market presence and product portfolio, it believes it is well positioned to capitalise on the expected growth in focused therapeutic areas.

Backward integrated business model: Its backward integration of API ensures steady supply of intermediates. As on October 31, 2021, 12 of its existing products are backward integrated, which contributed 67.14% and 60.17 .% of the total revenue for Fiscal year 2021 and for the six 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, its integration model of business helps it to have sustainable business. Backward integration has enabled the company to ensure a steady supply of intermediates at an equitable cost, avoiding any market fluctuations and to ensure quality and security of availability of essential raw materials. Its ability to produce key starting material is one of its key strengths, resulting in cost competitiveness.

Geographically diversified revenues with a global presence across 86 countries: The global pharmaceutical market can broadly be divided into regulated markets, semi-regulated and non-regulated markets. From April 1, 2020 until October 31 2021, its products were exported to 86 countries including (i) regulated markets such as USA, China, Japan, Germany, Spain, Indonesia, South Korea and Switzerland; and (ii) semi-regulated and non-regulated markets such as Brazil, Mexico, Chile, Taiwan, Malaysia;

Bangladesh, South Africa, Kenya, Jordan and Egypt, through Its own marketing and distribution network as well as by entering into distribution arrangements with pharmaceutical distributors in these markets. For the Fiscals 2019, 2020, 2021 and for the six month period ended September 30, 2021, its export sales accounted for 70.96% 71.85%,77.47% and 73.57%, respectively of Its revenue from operations. Its customers include global pharma companies such as Syntec Do Brasil LTDA, American International Chemical Inc and AT Planejamento E Desenbolvimento De Negocios Ltda, with whom the company has business relationship for over nine years, and Suan Farma Inc, Acme Generics LLP, Akum Drugs Ltd and Mankind Pharma Ltd with whom the company has business relationship for over four years. It believes that its long-standing relationship with the customers is a result of consistent product quality and reliability of supply. Its top 10 customers contributed to 30.24%, 32.09%, 40.10% and 47.13% of revenue from operations for Fiscals 2019, 2020, 2021 and for the six month period ended September 30, 2021, respectively.

Advanced manufacturing and research and development capabilities: Its modern manufacturing facility located in Parshuram Lote, Maharashtra is spread across 23,806 sq.mt and has reactor capacity of 547 KL/ day. The company has four manufacturing blocks which are segregated therapeutic segment wise. The fourth block commenced operation on May 30, 2021. The manufacturing facility includes well delineated areas for R&D, quality control (chemical microbiology), quality assurance, dedicated areas for engineering maintenance, warehouse, materials and finished goods stores. It also has an effluent treatment plant and an express feeder from the sub-station for power. The Company has acquired a plot of land, admeasuring 12,551 sq.mt, near the present manufacturing facility, wherein the Company intends to expand its manufacturing infrastructure. The company is a R&D driven company and believe that its focus on R&D has been critical to its success. Its R&D activities primarily include developing new products, improving existing products and expanding product applications. Its DSIR approved R&D facility is located in Parshuram Lote, Maharashtra. Its 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.

Strategy

Expansion of manufacturing capabilities: The company intends to enhance its production capacity and capabilities through additional capital expenditure in its existing manufacturing facilities. The company has also initiated the construction of a new warehouse and administration block (which will house a new quality control and assurance laboratory) to accommodate the rapidly expanding business and its needs. It plans to enhance its manufacturing capabilities and towards this strategy, the company has acquired a plot of land admeasuring 12,551 sq.mt near the present manufacturing facility. The company also intends to commence production of intermediates for its products like Diphenhydramine Hydrochloride, Cetirizine Dihydrochloride and Tramadol, to enhance their backward integration abilities. As on October 31, 2021, it has already backward integrated for 12 of its existing products and are in the process of commencing production for intermediates for its products like Diphenhydramine Hydrochloride, Tramadol Hydrochloride and Allopurinol. The proposed expansion of its manufacturing facilities is expected to enhance the key starting material manufacturing capabilities.

Expanding product portfolio with increasing R&D capabilities: The company's immediate strategy involves introducing new products and toward this, it already has a strong pipeline of products. Going forward, it intends to focus on other key therapeutic areas such as anti-gout, antidepressant, anti-anxiety, anti-convulsant and hypnotic. It intends to continue to drive its R&D initiatives towards the development of innovative APIs. It also intends to improve its R&D capabilities, with a focus on capturing more high-value first-to-market opportunities in key international markets, as well as leveraging its broad product basket to enhance its market position globally. As of October 31, 2021, it has filed 14 active DMFs with the USFDA and 8 active CEP's with EDQM for its API products in therapeutic areas such as antihistamine, analgesic, anaesthetic, vitamin, antiasthmatic and anti-allergic. The R&D team has also filed 3 process patent in India and 2 process patent with WIPO, as of October 31, 2021 and will continue to focus on developing and filing more process patents.

Increase current market presence and enter new markets: The company intends to continue to grow its sales in existing geographies in Latin America, North America, Europe, Asia and Middle East, and to grow its market share in these markets by increasing its product portfolio in these markets and by leveraging its existing relationships with customers. The company intends to create strong local presence and expertise with required infrastructure and develop capabilities to exploit growth potential offered by the relevant markets.

Continue to focus on operational excellence: The company intends to achieve operational excellence in terms of cost and production efficiency. It has adopted GMP manufacturing standards to achieve standardised product quality for all its markets. The GMP and manufacturing capabilities help clients with investigational to commercial-scale development programs.

Risk factors

- The company derives a significant portion of its revenue from a few customers.
- Its business is subject to extensive regulation.
- The company depends to a large extent on third-party suppliers and transporters.
- The pharmaceutical industry is intensely competitive.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Aarti Drugs	2191.57	211.09	22.78	24.82	5.62	100.57	10	565.3	5234.68
Neuland Labs.	948.83	73.13	57	28.14	2.55	629.03	10	1604.2	2058.17
Solara Active	1678.08	202.29	56.43	20.28	2.47	462.8	10	1144.25	4113.15
Supriya Lifescience Limited	449.60	131.92	18.03	16.72	3.67	74.65	2	274.00	2205.23

**Estimated Annaulised Financials

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.274, the stock is priced at pre issue P/E of 15.20x on an estimated annualised FY22 EPS of Rs.18.03. Post issue, the stock is priced at a P/E of 16.72x on its EPS of Rs.16.39. Looking at the P/B ratio at Rs.274, pre issue, book value of Rs. 45.76 of P/Bvx 5.99x. Post issue, book value of Rs.74.65of P/Bvx 3.67x.

Considering the P/E valuation, on the upper end of the price band of Rs.265, the stock is priced at pre issue P/E of 14.70x on an estimated annualised FY22 EPS of Rs.18.03. Post issue, the stock is priced at a P/E of 16.17x on its EPS of Rs.16.39. Looking at the P/B ratio at Rs.265, pre issue, book value of Rs. 45.76 of P/Bvx 5.79x. Post issue, book value of Rs.74.65 of P/Bvx 3.55x.

Industry overview

India spends very low on its healthcare expenditure and almost 65% is out-of-pocket expenditure by public. Government of India plans to increase its healthcare spending to 2.5-3.0% by 2025 (Covid pandemic has increased the healthcare spending and GOI estimated to spend 2.5-3.0% of GDP in 2022). Countries are more dependent on select few countries for API imports such as China and India – that is API imports is more concentrated, whereas formulation imports are diversified across various countries as per exports database. In India API imports are more concentrated from single market such as China (with 65-70% share) than formulation imports with EU region contributing the highest, with countries share as Belgium – 12.9% , Germany – 8.2% , France – 6.1%, Italy – 4.7%, Netherland – 4.3%, UK – 3.7% in fiscal 2020 formulation imports by India. India is one of the world's leading suppliers of drugs - mostly generic formulations - but depends on imports for its requirement of APIs and KSMs, particularly from China, which accounted for more than 60% of requirements in some therapy areas. India's reliance on pharmaceutical ingredient imports has risen over the past few decades due to the higher cost of domestic production, with the gap in cost reaching to almost 20%-30%, particularly for energy-intensive fermentation-based ingredients used in anti-infectives. Import

dependence is more than 90% for some life-saving drugs, including penicillin and ciprofloxacin. In an attempt to gain greater control over bulk drug supplies, large domestic pharmaceutical companies are increasing backward integration in key API and intermediates segments. Considering the growth in formulations in international and domestic market, Indian companies are taking steps to strengthen their API and intermediates manufacturing.

Outlook

The company is in the manufacturing and marketing of APIs globally. Its pharmaceutical business is organized into domestic and export sales, according to the geographies in which it operates. From April 1, 2020, until October 31 2021, SLL's products were exported to 86 countries to 1,296 customers including 346 distributors. For FY21 its top-line included 77% revenue from exports to over 86 countries.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	Dec 16, 2021
Bid/Offer Closing Date	Dec 20, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about Dec 23, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about Dec 24, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about Dec 27, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about Dec 28, 2021

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-21 (6 Months)	Period ended 31-Mar-21 (12 Months)	Period ended 31-Mar-20 (12 Months)
Revenue from operations	224.80	385.37	311.64
Total expenditure	131.39	218.07	213.26
Operating Profit	**93.41**	**167.30**	**98.38**
OPM%	41.55	43.41	31.57
Other Income	5.26	10.86	11.07
PBDIT	**98.67**	**178.15**	**109.45**
Depreciation	4.94	6.68	6.38
PBIT	**93.73**	**171.47**	**103.08**
Interest	2.03	4.08	6.85
PBT	**91.70**	**167.39**	**96.23**
Tax	25.74	43.57	22.82
Profit After Tax	**65.96**	**123.83**	**73.40**

Balance sheet is on next page

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Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-21	As on 31-Mar-21	As on 31-Mar-20
Non-current assets			
Property, plant and equipment	145.09	95.66	92.95
Right to Use Asset	1.29	1.47	1.84
Capital work-in-progres	34.19	78.79	40.21
Intangible assets	3.06	3.02	3.20
Financial Assets	**0.00**	**0.00**	**0.00**
Investments	0.05	0.05	0.05
Loans and Advances	0.44	0.43	0.18
Total non-current assets	**184.12**	**179.43**	**138.44**
Current assets			
Inventories	88.46	72.48	49.46
Financial Assets	0.00	0.00	0.00
Trade receivables	84.39	73.75	52.49
Cash and cash equivalents	2.38	31.07	1.54
-Bank balances other than above	76.27	12.43	0.00
-Other financial Assets	21.66	48.80	73.16
Loans and Advances	1.28	1.23	1.08
Other current assets	45.55	26.65	20.26
Total current assets	**319.99**	**266.40**	**197.99**
Total Assets	**504.10**	**445.83**	**336.43**
Non-current liabilities			
Financial liabilities			
Borrowings	0.00	0.00	2.39
-Lease Liabilities	1.92	2.07	2.31
-Other financial liabilities	0.00	19.49	18.61
Provisions	2.20	1.30	1.03
Deferred Tax Liabilities (Net)	12.41	8.01	7.51
Total non-current liabilities	**16.53**	**30.86**	**31.85**
Current liabilities			
Borrowings	70.99	67.41	76.68
Trade payables	56.10	51.02	49.39
Other financial liabilities	0.00	2.72	3.13
Provisions	0.64	1.47	1.49
Other Current Liabilities	6.85	8.21	22.54
Current Tax Liability (Net)	18.14	15.19	2.16
Total current liabilities	**152.71**	**146.02**	**155.39**
Total	**169.24**	**176.88**	**187.24**
NET Worth	**334.86**	**268.94**	**149.20**
Net worth represented by:			
Share capital	14.64	14.64	14.64
Other equity	320.23	254.31	134.56
Net Worth	**334.86**	**268.94**	**149.19**

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RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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