

December 16, 2021

Focused player in key, niche APIs...

About the Company: Supriya Lifescience (SLL) is a manufacturer and supplier of active pharmaceuticals ingredients (APIs), with a focus on research and development.

- 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
- Supriya has 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 FY17 and FY21. SLL is among the largest exporters of Salbutamol Sulphate in India contributing to 31% of the API exports from India in FY21 in volume terms

Key triggers/Highlights:

- Expansion of manufacturing capabilities
- Expanding product portfolio with increasing R&D capabilities
- Increase in current market presence and entry into new markets
- Operational excellence in terms of cost and production efficiency

What should investors do? Supriya owns 38 APIs focused on diverse therapeutic segments along with being largest exporter of Chlorpheniramine Maleate and Ketamine Hydrochloride from India. At the upper price band, it is valued at ~13.3x EV/EBITDA and ~17.8x P/E for FY21.

- We assign **UNRATED** rating to this IPO

Key risk & concerns

- Significant portion of revenue comes from certain products
- Customer concentration
- Business is subject to extensive regulation



IPO Details

Issue Details

Issue Opens	16th Dec 2021
Issue Closes	20th Dec 2021
Issue Size (₹ crore)*	700
Price Band (₹)	₹ 265 - ₹ 274
No. of Shares on Offer (in crore)	2.55
QIB (%)	75
Non institutional bidders (%)	15
Retail (%)	10
Minimum lot size (no of shares)	54
* based on upper price band of ₹ 274	

Shareholding pattern

	Pre-Issue	Post-Issue
Promoter Group	99.98%	68.24%
Public	0.02%	31.76%

Objects of the issue

Objects of issue	₹ crore
Funding Capital expenditure requirements	92.3
Repayment and/or prepayment of borrowings	60.0
General corporate purposes	*
Fresh Issue	200.0
Offer for Sale	500.0
* To be finalised post issue	

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Key Financial Summary

₹ crore	FY19	FY20	FY21	CAGR FY19-21 (%)
Total Revenues	277.8	311.6	385.4	17.8%
Adjusted EBITDA	64.7	98.4	167.3	60.8%
EBITDA Margins (%)	23.3%	31.6%	43.4%	
PAT	39.4	73.4	123.8	77.2%
EPS (₹)	4.9	9.1	15.4	
P/E (x)	55.9	30.0	17.8	
P/B (x)	23.5	14.8	8.2	
RoE (%)	42.0	49.2	46.0	
RoCE (%)	33.0	40.2	54.5	

Source: RHP, ICICI Direct Research

Company Background

Supriya Lifescience (SLL) are one of the key Indian manufacturers and suppliers of active pharmaceuticals ingredients (APIs), with a focus on research and development. 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. SLL 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 FY17 and FY21. SLL were among the largest exporters of Salbutamol Sulphate in India contributing to 31% of the API exports from India in FY21 in volume terms.

SLL's API business is in several countries across (i) Europe, which contributed to 17.40% and 18.53 % of revenue from operation for FY21 and H1FY22, respectively; (ii) Latin America, which contributed to 19.15% and 12.01% of revenue from operation for the year FY21 and H1FY22, respectively; (iii) Asia (excluding India), which contributed to 29.27% and 36.76% of revenue from operation for FY21 and H1FY22, respectively; (iv) North America, which contributed to 4.76% and 2.36% of revenue from operation for FY21 and H1FY22, respectively; and (vi) India, which contributed to 22.53% and 26.43% of revenue from operation for FY21 and H1FY22, respectively.

Exhibit 1: Key Products

Product (values in ₹ crore)	FY19	FY20	FY21	CAGR (FY19-21)
Chlorpheniramine Maleate	39.9	49.3	57.9	20.5%
Ketamine	49.2	70.3	95.1	39.0%
Salbutamol Sulphate	14.8	14.9	30.4	43.2%
Vitamin B2 (Riboflavin, Lactoplavin) and its salts	16.1	13.0	20.6	13.0%
Other derivatives of Pyridine	27.1	25.7	37.8	18.1%

Source: RHP, ICICI Direct Research

Exhibit 2: Geographical break-up

Region	FY19	FY20	FY21	H1FY22
Latin/ South America (Argentina, Brazil and Peru)	9.7%	7.7%	19.2%	12.0%
Europe	13.4%	17.7%	17.4%	18.5%
Asia (other than India, China and Cambodia)	28.9%	24.0%	19.5%	17.3%
India	29.0%	28.2%	22.5%	26.4%
China and Cambodia	8.5%	12.1%	9.8%	19.5%
North America	7.4%	6.1%	4.8%	2.4%

Source: RHP, ICICI Direct Research

SLL's business operations are supported by a modern manufacturing facility in Parshuram Lote, Maharashtra. The manufacturing facility has reactor capacity of 547 KL/day and seven cleanrooms. In addition, the company has acquired a plot of land, admeasuring 12,551 sq metre, near the present manufacturing facility, wherein SLL intends to expand its manufacturing infrastructure. The company's manufacturing abilities are also demonstrated by extensive experience regarding production and distribution of controlled substances. SLL'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 the products being exported to the relevant jurisdictions by SLL.

Exhibit 3: Market segments

Markets	FY19	FY20	FY21	H1FY22
Regulated markets	34.0%	32.6%	38.2%	49.2%
Semi-regulated and non-regulated markets	66.0%	67.0%	61.8%	50.8%

Source: RHP, ICICI Direct Research

SLL's customers include global pharma companies such as Syntec Do Brasil LTDA, American International Chemical Inc. and AT Planejamento E Desenvolvimento De Negocios Ltda, with which the company has had a business relationship for over nine years, and Suan Farma Inc, Acme Generics LLP, Akum Drugs Ltd and Mankind Pharma with which it has had a business relationship for over four years. SLL's top 10 customers contributed to 30.24%, 32.09%, 40.10% and 47.13% of revenue from operations for FY19, FY20, FY21 and for H1FY22, respectively.

SLL has a DSIR approved R&D facility in Parshuram Lote, Maharashtra. 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 while 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).

Exhibit 4: Pipeline

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

Source: RHP, ICICI Direct Research

Exhibit 5: Key Financial Performance

(Values in ₹ crore)	FY19	FY20	FY21	H1FY22
Total revenue	285.9	322.7	396.2	230.1
EBITDA	72.8	109.5	178.2	98.7
Profit after tax	39.4	73.4	123.8	66.0

Source: RHP, ICICI Direct Research

SLL's total revenue represented growth of 12.89%, and 22.78%, respectively, from FY19 to FY20 and from FY20 to FY21, respectively. The EBITDA represented growth of 50.43% and 62.77%, respectively, from FY19 to FY20 and from FY20 to FY21, respectively. SLL's PAT witnessed growth of 86.19% and 68.70% from FY19 to FY20 and from FY20 to FY21, respectively.

Industry Overview

The bulk drugs industry in India is highly fragmented with major presence of small unorganised players. There are over 2,700 API manufacturers in India with unorganised players constituting almost half of the industry. While there are a large number of standalone bulk drug manufacturers, most formulators are backward integrated and also produce bulk drugs. The larger players operate in the domestic as well as export markets, focusing more on the latter. The API industry grew at 8.3% over FY15-FY20 and is expected to grow at a CAGR of 11-12% over FY20-25E.

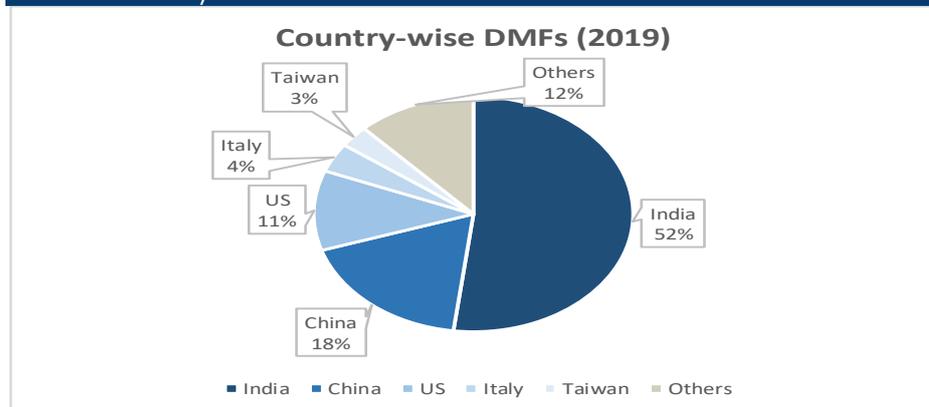
Exhibit 6: Growth in Indian pharmaceutical industry

Industry segment	CAGR(FY15-20)	CAGR(FY20-FY25E)
Domestic formulation industry	8.5%-9.5%	10.5%-11.5%
Formulation and biologics exports	10.5%	14.0-15.0%
Domestic bulk drugs industry	8.3%	11.5%-12.5%
Bulk drugs exports	5.6%	9.5-10.5%

Source: RHP, ICICI Direct Research

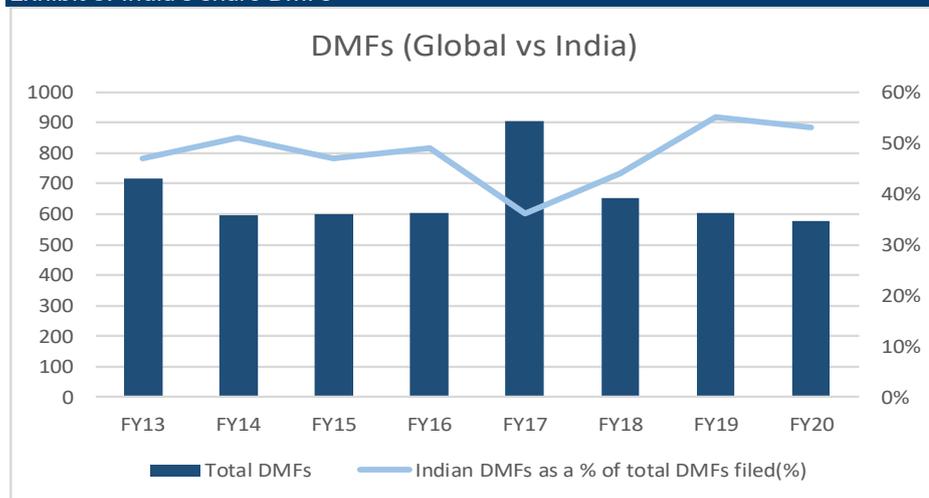
India has highest number of USFDA-approved facilities outside US, leads US DMF submissions

Exhibit 7: Country-wise DMFs



Source: RHP, ICICI Direct Research

Exhibit 8: India's share DMFs



Source: RHP, ICICI Direct Research

India is emerging as key player in CDMO segment

India is becoming a preferred destination for outsourcing pharmaceutical activities across pharma value chain. Global pharmaceutical players are continuously witnessing cost pressures and looking for ways to shorten time to market. Thus, the industry is looking for established CDMO partners, particularly in Asian markets such as India and China. Bulk drug manufacturing costs are significantly lower in India than in the regulated markets of the 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.

Assessment of key API for therapeutic areas

Anti-histamine & Anti-allergy

Antihistamines are drugs, which help to treat allergies. Normally, people take antihistamines as an inexpensive, generic, OTC drug that helps in itching, runny nose and sneezing, nasal congestion, hives, teary eyes, dizziness, cough and nausea. Antihistamines are also used to treat motion sickness, insomnia and anxiety. The drug basically works by acting against a chemical called histamine which leads to many allergic symptoms. Anti-histamine and anti-allergy therapeutic areas is estimated at US\$3.5 billion in FY20 growing at 8% CAGR between FY15 and FY20. Anti-histamine segment is expected to grow at 8.0-10.0% between FY20 and FY25 due to increase in allergies and other diseases from changing lifestyle and demand for new drugs for the treatment of these diseases.

Pain Management

Pain management, pain killer, pain medicine, pain control, are therapeutics areas that are used to ease the suffering and reducing chronic pain. Global pain management market is estimated at US\$7.8 billion in 2020. The market grew at a CAGR of 4.5% between FY15 and FY20. The segment is expected to see growth of 5.0% over the next five years from FY20 to FY25 supported by increased surgeries, increased incidence of chronic diseases, and rise in flu related illness with rapidly changing climatic changes.

Vitamins

Consumers are increasingly shifting towards including vitamins and supplements in their daily routine due to fast-developing interest as well as awareness over personal health and well-being. Vitamins is a capital intensive sector as the new product development is a highly capital-intensive process. Research and development are the key success factors for vitamins and dietary supplements, which require significant investments. Global vitamins market is estimated at US\$ 1.5 billion in 2020. The market grew at a CAGR of 6.0% between FY15 and FY20 and is expected to grow at 8.0-10.0% between FY20 and FY25

Anti-hypertension

Cardiovascular Diseases (CVD) are a group of disorders affecting the heart and blood vessels and are the most common cause of death globally. Global anti-hypertension therapeutic area API market is estimated at US\$ 10.4 billion in 2015. The market grew at a CAGR of 4.5% from FY15 to US\$ 13 billion in FY20. Anti-hypertension therapeutic area is expected to grow at 3.0-4.0% between FY20 and FY25.

Anti-gout

Anti-gout medications are also called anti-hyperuricemic agents. These agents work to either correct overproduction or under-excretion of uric acid. Global anti-gout therapeutic area API market is estimated at US\$1.4 billion in 2020. The market grew at a CAGR of 8.0% from FY15 to FY20. Anti-gout therapeutic area is expected to grow at 8.0-10.0% between FY20 and FY25 driven by rise in prevalence of gout, higher geriatrics populations in developed markets, and increase in sedentary lifestyle and chronic disease.

Investment Rationale

Expansion of manufacturing capabilities

SLL operate from the manufacturing facility in Parshuram Lote, Maharashtra, spread across 23,806 sq metre, having reactor capacity of 547 KL/ day. The company intends to enhance the production capacity and capabilities through additional capital expenditure. SLL also intends to commence production of intermediates for products like Diphenhydramine Hydrochloride, Cetirizine Dihydrochloride and Tramadol, to enhance the backward integration abilities. As on October 31, 2021, The company is already backward integrated for 12 of the existing products and is in the process of commencing production for intermediates for the products like Diphenhydramine Hydrochloride, Tramadol Hydrochloride and Allopurinol. The proposed expansion of manufacturing facilities is expected to enhance the company's key starting material manufacturing capabilities.

Expand product portfolio with increasing R&D capabilities

SLL believes that consolidating its position in the existing therapeutic areas, namely, antihistamine, analgesic, anaesthetic, vitamin, anti-asthmatic and anti-allergic, would be key to its growth in the existing and newer markets. Immediate strategy involves introducing new products and toward this, the company already has a strong pipeline of products such as dextromethorphan hydrobromide (decongestant), pentoxifylline (xanthine derivatives), (s)-ketamine hydrochloride (analgesic/ antipyretic/ anaesthetic), phenylephrine hydrochloride (decongestant), allopurinol (anti-gout) and benfotiamine (diabetic neuropathy). Going forward, SLL intends to focus on other key therapeutic areas such as anti-gout, anti-depressant, anti-anxiety, anti-convulsant and hypnotic. The company also intends to continue the R&D initiatives towards the development of innovative APIs, with a focus on capturing more high-value first-to-market opportunities in key international markets, as well as leveraging the broad product basket to enhance its market position globally. SLL continually aims to develop advanced range of treatment options, enhance product portfolio, expand into niche therapeutic areas, achieve technical competitiveness and bring in cost efficiency in existing products and processes, through investment in R&D. It also intends to increase the R&D capabilities and expertise in niche areas with high entry barrier such as complex chemistry, complex technology and patented processes, which offer significant market opportunities.

Increase current market presence, enter new markets

SLL intends to continue to grow sales in existing geographies in Latin America, North America, Europe, Asia and Middle East, and grow market share in these markets by increasing product portfolio 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. While growth strategy may vary from country to country depending on applicable regulatory requirements, competition and pricing. SLL will continue to carefully select products of value for launch in markets like Europe, which enables it to have better pricing for the products. The company will also continue to engage with pharmaceutical companies with strong local presence or alternatively appoint local distributors through whom it can undertake own sales and marketing.

Continue to focus on operational excellence

The company intends to achieve operational excellence in terms of cost and production efficiency. Its manufacturing facilities and process are fully integrated with multi-purpose operational and scale-up abilities. It has adopted cGMP manufacturing standards to achieve standardised product quality for all markets. Quality control and assurance are key focus areas in the manufacturing process. Its cGMP and manufacturing capabilities help clients with investigational to commercial-scale development programs. Each product is released with consistent high quality to meet regulatory standards. The company believes that its advanced manufacturing facility and research and development capabilities, along with ongoing expansion efforts, will help it to reduce production cost, increase production and achieve economies of scale.

Key Risk

Product concentration

SLL generates a significant portion of the revenue from operations from the sale of a limited number of products. Revenue from the sale of these products may decline as a result of increased competition, regulatory action, pricing pressures or fluctuations in the demand for or supply of such products. Similarly, in the event of any breakthroughs in the development or invention of alternative products for these categories, the company may be exposed to the risk of the products becoming obsolete or being substituted by such alternatives. If SLL is unable to continue to sell the top products in the market or maintain historic levels of business from these products or fail to successfully introduce new products in other categories to compensate for any losses in these categories, the business, results of operations and financial condition may be adversely affected.

Exhibit 9: Product Concentration

Vaues (in ₹ crore)	Top 3 API and related products		Top 5 API and related products		Top 10 API and related products	
	Revenue	As a % of revenue from operations	Revenue	As a % of revenue from operations	Revenue	As a % of revenue from operations
FY19	135.3	48.7	178.2	64.2	225.9	81.3
FY20	169.7	54.5	207.8	66.7	268.2	86.1
FY21	194.3	50.4	245.8	63.8	312.1	81.0
H1FY22	117.2	52.1	148.7	66.2	193.2	85.9

Source: RHP, ICICI Direct Research

Customer Concentration

For FY19, FY20 and FY21, top 10 customers contributed 30%, 32% and 40% to the revenue, respectively. Further, the company does not have long term contractual arrangements with most of its significant customers and conducts business with them on the basis of purchase orders that are placed from time to time. Additionally, some of the customers currently manufacture or may start manufacturing their own APIs and may discontinue purchasing APIs from Supriya. The loss of one or more of the significant customers or a reduction in the amount of business could have an adverse effect on SLL's business. Reliance on a select group of customers may also constrain the company's ability to negotiate arrangements, which may have an impact on profit margins and financial performance.

Regulatory hurdles

SLL operates in a highly regulated industry and the operations are subject to extensive regulation in each market in which the company does business. All aspects of the business, including research & development activities, manufacturing operations and sales and marketing activities, are subject to extensive legislation and regulation by various local, regional, national and overseas regulatory regimes. The company's business is subject to, among other things, the receipt of all required licenses, permits and authorisations, which are granted for a limited duration and require renewal. If there is any failure on part of SLL to comply with the applicable regulations or if the regulations governing the business are amended, the company may incur increased costs, be subject to penalties, have the approvals and permits revoked or suffer a disruption in business operations, any of which could adversely affect SLL's business.

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
Revenue (₹ crore)	FY19	FY20	FY21	H1FY22
Revenue from operations	277.8	311.6	385.4	224.8
Other income	8.0	11.1	10.9	5.3
Total revenue	285.9	322.7	396.2	230.1
Raw Material Expenses	146.9	138.5	128.1	83.2
Employee expense	19.0	25.6	32.8	17.8
Other expenses	47.3	49.2	57.2	30.4
Total Expenses	213.1	213.3	218.1	131.4
Adjusted EBITDA	64.7	98.4	167.3	93.4
Finance costs	10.2	6.8	4.1	2.0
Depreciation and amortisation e	5.4	6.4	6.7	4.9
Profit before tax and exceptiona	57.1	96.2	167.4	91.7
Profit before tax	57.1	96.2	167.4	91.7
Total Tax	17.7	22.8	43.6	25.7
Profit after tax before Minority ii	39.4	73.4	123.8	66.0
Profit after tax	39.4	73.4	123.8	66.0

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
Cash Flow (₹ crore)	FY19	FY20	FY21	H1FY22
PBT	57.1	96.2	167.4	91.7
Operating profit before working	69.6	106.5	172.7	95.5
Changes in working capital	-6.8	36.6	-62.8	-61.3
Income tax paid	-14.1	-27.0	-30.0	-18.4
CF from operating activities	48.7	116.1	79.9	15.9
(Purchase)/Sale of Fixed Assets	4.8	-24.5	-47.4	-9.6
(Purchase)/sale of investments	0.1	0.0	0.0	0.0
CF from investing activities	4.8	-24.5	-47.4	-9.6
Adj. of Loan	-40.5	-7.6	-12.1	0.9
Interest (paid)/received	-9.2	-4.0	1.1	0.9
Dividends Paid	0.0	-17.6	-4.0	0.0
CF from financing activities	-49.7	-29.2	-14.9	1.8
Net Cash Flow	3.8	62.3	17.6	8.0
Opening Cash	8.6	12.4	74.7	92.3
Closing Cash Flow	12.4	74.7	92.3	100.3
FCF	53.4	91.5	32.5	6.2

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
Balance Sheet (₹ crore)	FY19	FY20	FY21	H1FY22
Equity and liabilities				
Shareholders' funds				
Share capital	14.6	14.6	14.6	14.6
Reserves and surplus	79.2	134.6	254.3	320.2
Non-current liabilities				
Long-term borrowings	10.7	4.7	2.1	1.9
Deferred tax liabilities (net)	9.7	7.5	8.0	12.4
Other non-current liabilities	4.0	19.6	20.8	2.2
Current liabilities				
Short-term borrowings	77.2	76.7	67.4	71.0
Trade payables	44.1	49.4	51.0	56.1
Other current liabilities	8.2	25.7	10.9	6.8
Short-term provisions	1.2	1.5	1.5	0.6
Current Tax Liabilities (Net)	4.1	2.2	15.2	18.1
Total	253.1	336.4	445.8	504.1
Assets				
Non current assets				
Fixed assets				
Tangible assets	82.7	94.8	97.1	146.4
Capital work in progress	35.4	40.2	78.8	34.2
Intangible assets	2.0	3.2	3.0	3.1
Non-current investments	0.1	0.1	0.1	0.1
Other financial assets	0.0	0.2	0.4	0.4
Current assets				
Inventories	30.7	49.5	72.5	88.5
Trade receivables	60.0	52.5	73.7	84.4
Cash and bank balances	1.7	1.5	43.5	78.6
Short-term loans and advances	12.4	1.1	1.2	1.3
Other current assets	28.1	93.4	75.4	67.2
Total	253.1	336.4	445.8	504.1

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
Ratio Sheet	FY19	FY20	FY21	H1FY22
Per share data (₹)				
Diluted EPS	4.9	9.1	15.4	8.2
Cash EPS	5.6	9.9	16.2	8.8
BV per share	11.7	18.5	33.4	41.6
Cash Per Share	0.2	0.2	5.4	9.8
Operating Ratios (%)				
Gross Profit Margins	47.1	55.6	66.8	63.0
EBITDA Margins	23.3	31.6	43.4	41.6
PAT Margins	14.2	23.6	32.1	29.3
Inventory days	40.4	57.9	68.6	143.6
Debtor days	78.8	61.5	69.8	137.0
Creditor days	58.0	57.8	48.3	91.1
EBITDA Conversion Rate	75.2	118.0	47.8	17.0
Return Ratios (%)				
RoE	42.0	49.2	46.0	19.7
RoCE	33.0	40.2	54.5	26.9
RoIC	41.0	48.7	74.3	30.0
Valuation Ratios (x)				
EV / Sales	8.2	7.3	5.8	9.8
EV/EBITDA	35.4	23.2	13.3	23.5
Market Cap / Sales	7.9	7.1	5.7	9.8
P/E	55.9	30.0	17.8	33.4
Price to Book Value	23.5	14.8	8.2	6.6
Solvency Ratios				
Debt / EBITDA	1.4	0.8	0.4	0.8
Debt / Equity	0.9	0.5	0.3	0.2
Net Debt/ Equity	0.9	0.5	0.1	0.0
Current Ratio	1.0	1.3	2.0	2.4
Quick Ratio	0.8	1.0	1.5	1.7
Asset Turnover	2.3	2.3	2.2	1.2

Source: Company, ICICI Direct Research

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Avoid: Do not apply for the IPO

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