

**Rating: Subscribe**

**Issue Offer**

**Fresh Issue of equity shares worth INR 2,000 Mn and an Offer for Sale of equity shares worth INR 5,000 Mn.**

**Issue Summary**

Price Band (INR)	265-274
Face Value (INR)	2
Implied Market Cap (INR Mn)	22,052
Market Lot	54
Issue Opens on	Dec 16th, 2021
Issue Close on	Dec 20th, 2021
No. of share pre-issue	73,183,530
No. of share post issue	80,482,800
Listing	NSE / BSE

**Issue Break-up (%)**

QIB Portion	75
NIB Portion	15
Retail Portion	10

**Book Running Lead Managers**

ICICI Securities Ltd.  
Axis Capital Ltd.

**Registrar**

Link Intime India Pvt. Ltd.

**Shareholding Pattern**

	Pre-Issue	Post-Issue
Promoters & Promoter Group	99.98%	67.59%
Public	0.02%	32.41%

**Objects of the issue**

- Funding capital expenditure requirements.
- Repayment and/or pre-payment, in full or part, of certain borrowings availed.
- General corporate purposes

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**Company Profile:**

Supriya Lifescience Ltd. is a major Indian manufacturer and supplier of active pharmaceutical ingredients with a niche product basket of 38 APIs across diverse therapeutic segments such as antihistamine, analgesic, anaesthetic, vitamin, anti-asthmatic and anti-allergic. It is 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. The company is amongst the largest exporters of Salbutamol Sulphate in India contributing to 31% of the API exports from India in FY21 in volume terms.

**Investment Rationale:**

**Capacity expansion and higher utilization to support volume growth:** The company has modern manufacturing facility located in Parshuram Lote, Maharashtra. The reactor capacity is 547 KL/day and is spread around 23,806 sq.mts. Out of this, about 215 KL/day of capacity has been recently commissioned in H1FY22 and is being ramped up. Additionally, the company has acquired a plot of land, admeasuring 12,551 sq.mt. near the present manufacturing facility, which it can use for future manufacturing expansion.

**Backward integrated business model to support margins:** Backward integration of API ensures steady supply of intermediates for the company. As of October 2021, 12 of its products were backwardly integrated, which contributed about 67% of the revenues in FY21. These products include Ketamine Hydrochloride, Salbutamol Sulphate, Chlorpheniramine Maleate, Bisoprolol Maleate, Pheniramine Maleate, Dexchlorpheniramine Maleate, Brompheniramine Maleate, Mepyramine Maleate/Pyrimilamine Maleate, Levosalbutamol Sulphate, Dextromethorphan Hydrobromide, Dexbrompheniramine Maleate and Allopurinol. Apart from raw material security, backward integration has increased cost competitiveness and facilitated robust margins for the company. It intends to increase the gamut of products and undertake their respective backward integration.

**Diversified revenues with extensive global presence:** The company has a large export base which has increased from 71% in FY19 to 74% in H1FY22. Regulated markets comprise about 38% of the total revenues in FY21. Increasing regulated market exposure has helped the company to expand its gross margins from 47.1% in FY19 to 63.0% in H1FY22. Diversified foreign exposure has also reduced regional revenue risk for the company. The company plans to further increase its regulated market exposure and has applied for product registration and approval in the respective countries.

**Robust financials with free cash flow generation to support future capital expenditure:** Topline increased at a healthy CAGR of 17.7% between FY19 and FY21, while EBITDA and PAT increased at a CAGR of 56.5% and 77.2% respectively during the same period. Gross margins expanded significantly from 47.1% in FY19 to 63% in H1FY22. The company generates strong cash flow from operations which will support future expansion plans. It targets to double its turnover in 3-4 years, driven by capacity expansion and entry into newer geographies.

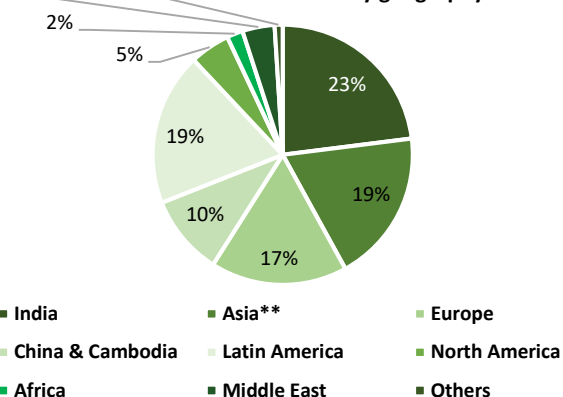
**Valuation and Outlook:** At the upper price band of INR 274 per share, the company is valued at a P/E multiple of 16x based on FY21 EPS of INR 16.9. The company has expanded its capacity in mid 2021 and is ramping up its utilization to optimal levels of about 82%. This will facilitate volume growth and increase its top-line. Also, the company is increasing exposure to high margin regulated markets, which will support its operating margins. It also has additional land and backward integration plans which will augur well for the company in future. We have a positive view on the company and recommend investors to subscribe the IPO owing to attractive valuation.

## About the Business

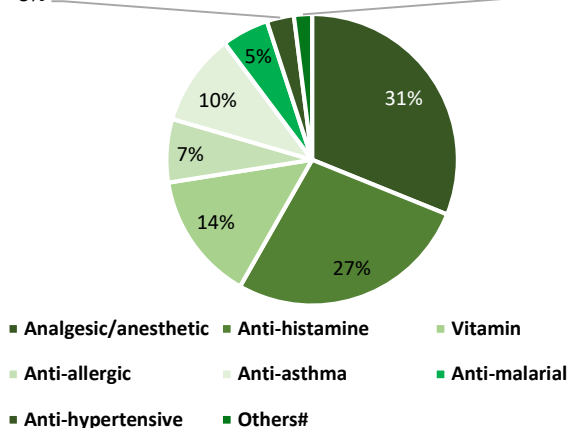
- The company has a strong presence in the Active Pharmaceutical Ingredients (API) manufacturing, with focus on high value products with limited competition.
- It has a diversified, R&D focused operations at DSIR approved facility with strong IP consisting of 14 DMFs with USFDA, 8 CEPs with EDQM and 3 process patent filed.
- It has a global clientele with good customer relationship on the back of consistent product quality and reliability of supply. Its client list includes Syntec, Suan Farma, Mankind Pharma, Akums Drugs and Pharmaceuticals Ltd., LNK International Inc., Acme Generics LLP.

## Business Mix

FY21: Revenues by geography



FY21: Revenues by therapy



Note: \*\*: Excludes China & Cambodia, #: Others include other therapies: Smoking Cessation, Decongestant, Xanthine derivatives, Feed additive.

## Key Risks

- The business is subject to extensive regulation and failure to comply or renew statutory and regulatory licenses, permits and approvals can adversely affect business operations.
- The company depends upon third-party transporters and any disruption in logistics and supply chain can negatively impact the business operations, particularly exports.

## Peer Comparison

Company	FY21 Revenue (INR Mn)	FY21 EPS (INR)	NAV as on March 31, 2021	P/E	P/B	RoNW as on March 31, 2021
Solara Active Pharma Sciences Ltd.	16,457	64.52	443.3	18.4	2.9	13.90%
Neuland Laboratories Ltd.	9,530	62.85	613	27.8	2.9	10.25%
Aarti Drugs Ltd.	21,593	30.09	98	16.8	5.2	30.70%
Divis Laboratories Ltd.	70,320	74.75	350.1	65.3	13.9	21.35%

Source: RHP, Arianth Capital Research

## Management

Key Person	Description
<b>Satish Wagh</b>	Satish Wagh is the Chairman & Managing Director of the company. He is B.Sc. From R.D. National College and W.A. Science College, University of Bombay, Mumbai & an honorary Ph.D. in entrepreneurship from Faculty of Management Studies, National American University. He is Director on the boards of Supriya Medi-Chem Private Ltd., Lote Industries Testing Laboratory Association and Sachin Industries Ltd.
<b>Shireesh Ambhaikar</b>	Shireesh Ambhaikar is the Chief Executive Officer of the company. He has Bachelor's, Master's and PhD in Science from University of Mumbai. He was previously associated with Perrigo API India Pvt. Ltd. As CEO, Dr. Reddy's Laboratories Ltd. As VP & Head – Manufacturing, UCB India Pvt. Ltd. as Director – Manufacturing, Novartis Enterprise Ltd. as Manager – Production, Wanbury Ltd. As President Operations (API) and Sandoz Ltd.
<b>Ashish Nayak</b>	Ashish Nayak is the Chief Financial Officer of the company. He was previously associated with Brand Holdings (India) Pvt. Ltd. as the Chief Financial Officer (CFO), Timezone Entertainment Pvt. Ltd. as the CFO, Foresight Vision Care Company Pvt. Ltd. and Crown Healthcare.

Source: RHP, Arianth Capital Research

## Financial Performance:

Consolidated Income Statement (INR Mn)	2019	2020	2021
Revenue From Operations	2,778	3,116	3,854
Other Income	80	111	109
<b>Total Revenue</b>	<b>2,859</b>	<b>3,227</b>	<b>3,962</b>
Expenses:			
Cost of raw materials, components and stores consumed	1,461	1,524	1,406
(Increase)/decrease in inventories	8	-139	-124
Employee Benefit	190	256	328
Other Expenses	473	492	572
Total Expenses	2,131	2,133	2,181
EBITDA	728	1,095	1,782
Depreciation and Amortisation	54	64	67
Finance Costs	102	68	41
<b>Profit before tax</b>	<b>571</b>	<b>962</b>	<b>1,674</b>
Total Tax Expense	177	228	436
<b>Profit After Tax</b>	<b>394</b>	<b>734</b>	<b>1,238</b>

Consolidated Balance Sheet (INR Mn)	2019	2020	2021	Consolidated Balance Sheet (INR Mn)	2019	2020	2021
<b>ASSETS</b>				<b>EQUITY AND LIABILITIES</b>			
<b>Non-Current Assets</b>				<b>Equity</b>			
Property, Plant and Equipment	805	930	957	Equity Share Capital	146	146	146
Right-of-use Asset	22	18	15	Other Equity	792	1,346	2,543
Capital Work in Progress	354	402	788	<b>Total Equity</b>	<b>938</b>	<b>1,492</b>	<b>2,689</b>
Intangible Assets	20	32	30	<b>Liabilities</b>			
Financial Assets	1	1	1	<b>Non-Current Liabilities</b>			
Loans and Advances	0	2	4	Financial Liabilities	140	233	216
<b>Total Non- Current Assets</b>	<b>1,201</b>	<b>1,384</b>	<b>1,794</b>	Provisions	7	10	13
<b>Current Assets</b>				Deferred Tax Liabilities	97	75	80
Inventories	307	495	725	<b>Total Non- Current Liabilities</b>	<b>244</b>	<b>318</b>	<b>309</b>
Trade Receivables	600	525	737	<b>Current Liabilities</b>			
Cash and Cash Equivalents	17	15	311	Financial liabilities	1,258	1,292	1,212
Bank balances other than above	-	-	124	Provisions	12	15	15
Other Financial Assets	107	732	488	Other current liabilities	37	225	82
Loans and Advances	124	11	12	Current Tax Liabilities (Net)	41	22	152
Other Current Assets	175	203	267	<b>Total Current Liabilities</b>	<b>1,349</b>	<b>1,554</b>	<b>1,460</b>
<b>Total Current Assets</b>	<b>1,329</b>	<b>1,980</b>	<b>2,664</b>	<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,531</b>	<b>3,364</b>	<b>4,458</b>
<b>TOTAL ASSETS</b>	<b>2,531</b>	<b>3,364</b>	<b>4,458</b>				

Consolidated Cash Flow Statement (INR Mn)	2019	2020	2021
Cash Flow From Operations	487	1161	799
Cash Flow Investing Activities	48	-245	-474
Cash Flow From Financing Activities	-497	-292	-149
<b>Net Cash Generated during the period</b>	<b>38</b>	<b>623</b>	<b>176</b>
<b>Cash and Cash Equivalents at the beginning of the period</b>	<b>86</b>	<b>124</b>	<b>747</b>
<b>Cash and Cash Equivalents at the end of the period</b>	<b>124</b>	<b>747</b>	<b>923</b>

Source: RHP, Arianth Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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