

Supriya Lifescience

Pharmaceutical | India

IPO | 15 December 2021

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Strong R&D Focused API Player

About the Company

Supriya Lifescience (Supriya) is one of the key Indian manufacturers of active pharmaceuticals ingredients (APIs), with a focus on R&D. As of Oct'21, the company has niche product offerings of 38 APIs focused on diverse therapeutic segments such as antihistamine, analgesic, anaesthetic, vitamin, anti-asthmatic and antiallergic. Supriya has a global presence across 86 countries with 346 distributors that contribute 77% of the total revenue. It was the largest exporter of Chlorpheniramine Maleate (export share of 45%-50%) and Ketamine Hydrochloride (export share of 60%-65%) during FY17-FY21. Supriya is also one of the largest exporters of Salbutamol Sulphate in India, contributing to 31% of API exports in FY21. Derivatives of pyridine such as pyrilamine maleate, dexchlorpheniramine maleate, brompheniramine maleate dexbrompheniramine maleate and their exports from India have clocked 15% CAGR over FY17-FY21, in which the company had a market share of 2.5%-3%. Supriya has backward integration into API, which ensures a steady supply of intermediates. Currently, 12 of the existing products are backward integrated, which contributed 67% of the total revenue in FY21, with higher margins and lesser dependence on suppliers for key starting material. The company has superior manufacturing and R&D capabilities in Maharashtra, which are spread across 23,806 sq.mt with a reactor capacity of 547 KL/day. Supriya has its products registered with international regulatory authorities like USFDA, EDQM, NMPA, and Taiwan FDA etc.

Expansion into Key Export Markets

Supriya is looking to expand in existing geographies in Latin America, North America, Europe, Asia and the Middle East by increasing product portfolio and leveraging its relationships. The company intends to create a strong local presence and expertise to exploit the growth potential. Supriya's growth strategy varies from country to country depending on factors like applicable regulatory requirements, competition and pricing. It continues to carefully select products of value for launch in the regulated markets like Europe, which enables to have a better pricing for products. Supriya will continue to engage with pharmaceutical companies with a strong local presence or alternatively appoint local distributors.

Financials in Brief

Supriya has a decent track record of operations of over 12 years with a strong balance sheet and stable cash flow. It has maintained positive operating cash flows since inception. Supriya reported strong growth in the past couple of years. During FY19-FY21, its revenue and PAT clocked 18% and 77% CAGR, respectively, while the average RoE and RoCE stood at ~46% and ~37%, respectively. Its operating margin and return ratio profile is nearly double of the industry average. The company has a strong asset-sweating capability, with an asset turnover ratio of 4x. Balance sheet has improved significantly in the past few years, with the debt-equity ratio reduced to 0.3x in FY21, from 0.9x in FY19.

Our View: SUBSCRIBE

On FY22 annualized financials, the IPO is valued at 11.8x EV/EBITDA, 4.9x EV/sales and 16.7x P/E, which is more or less close to industry average. However, company's high EBITDA margin and healthy return ratios (2x of Industry average) certainly commands premium valuation. The company is looking to expand its capacity and has initiated the construction of a new warehouse and administration block. It has acquired a plot of land of 12,551 sq.mt near the present manufacturing facility. Supriya is also looking to start the production of intermediates for Diphenhydramine Hydrochloride, Cetirizine Dihydrochloride and Tramadol to enhance its backward integration abilities. It intends to increase R&D capabilities and expertise in niche areas with a high entry barrier such as complex chemistry, complex technology and patented processes, which offer significant market opportunities. The expanding portfolio of product offerings in regulated markets is largely backed by increased regulatory capabilities. As of Oct'21, it has filed 14 active Drug Master Files (DMFs) with the USFDA and 8 active Certificate of Sustainability (CEP's) with the European Directorate for the Quality of Medicines & Health Care (EDQM). Supriya continues to focus on developing and filing more DMFs in areas of niche and differentiated products that provide better growth opportunities and help to develop new business. **In view of the strong financials with healthy margins and high return ratios, niche product offerings of 38 APIs, expansion into key overseas markets, strong market share and valuation comfort, we recommend SUBSCRIBE to the issue and expect a reasonable IPO listing gain for investors.**

IPO Details

Price Band (Rs)	265-274
Face Value (Rs)	2
Issue Open/Closing Date	16-Dec-21/20-Dec-21
Fresh Issues (mn)	7.3
OFS (mn)	18.2
Total Issue (mn)	25.5
Minimum Bid Qty. (Nos)	54
Issue Size (Rs bn)	7.0
QIB / HNI / Retail	75%/15%/10%
Implied Market Cap (Rs bn)	22.1

Object of the Issue

- ▶ Capital expenditure requirement
- ▶ Repayment of borrowing
- ▶ General corporate purpose

Key Risk

- ▶ Lower demand from key products and clients
- ▶ Reduction in demand from certain customers.
- ▶ Failure to comply with regulations prescribed by governments and regulatory agencies.
- ▶ Under-utilization of manufacturing capacities.
- ▶ Inability to compete effectively in the pharmaceutical industry.
- ▶ Inability to accurately forecast demand for products and manage the inventory.

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	100.0	68.3
Public	0.0	31.7

Key Financials

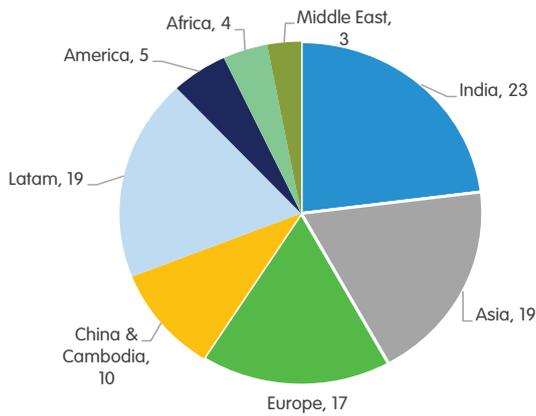
(Rs mn)	FY19	FY20	FY21
Revenue	2,778	3,116	3,854
EBITDA	647	984	1,673
EBITDA Margin (%)	23.3	31.6	43.4
PAT	394	734	1,238
PAT Margin (%)	14.2	23.6	32.1
EPS (Rs)	4.9	9.1	15.4
P/E (x)	55.9	30.0	17.8
EV/EBITDA (x)	35.4	23.2	13.3
EV/Sales (x)	8.2	7.3	5.8
Net Worth	938	1,492	2,689
ROE (%)	42.0	49.2	46.0
ROCE (%)	30.4	35.7	43.7
Total Debt	853	791	674
Net Block	805	930	957
Net Asset Turnover	3.5	3.4	4.0
Debt/Equity (x)	0.9	0.5	0.3

Source: RHP; Valuation on higher Price Band

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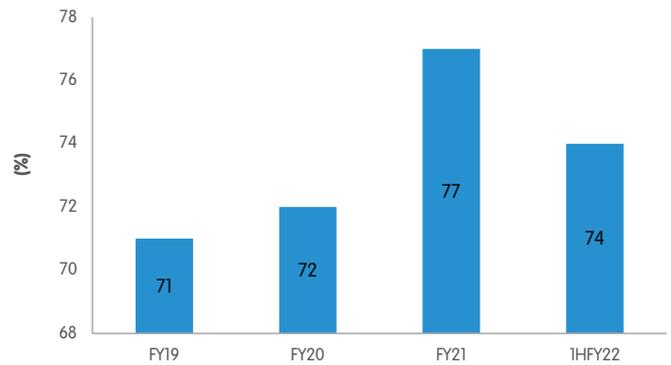
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Exhibit 1: Geographical revenue Mix



Source: RHP

Exhibit 2: Export % of Revenue



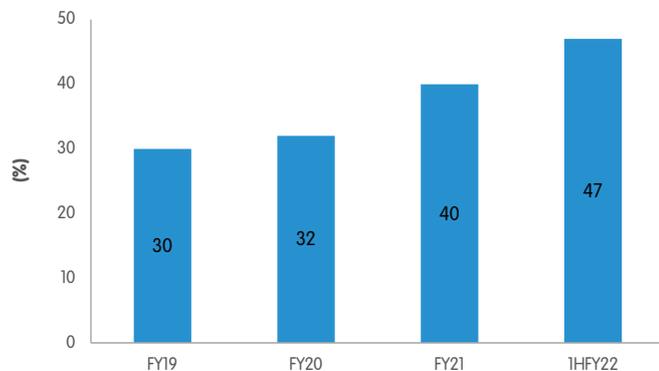
Source: RHP

Exhibit 3: Niche Product Portfolio

Products	Therapeutic area	Certifications
Chlorpheniramine Maleate(CPM)	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, NMPADMF
DexchlorpheniramineMaleate	Antihistamine	US DMF,EDMF
MepyramineMaleate	Antihistamine	US DMF, CEP,EDMF
KetamineHydrochloride	Analgesic/Antipyretic/Anesthetic	US DMF, CEP, TGA DMF, Canadian DMF (Human Use & Veterinary),EDMF
TramadolHydrochloride	Analgesic/Anti-pyretic/Anesthetic	Korean FDA,EDMF,
Riboflavin 5 -PhosphateSodium	Vitamin	US DMF, EDMF, Kosher, Indonesian Halal, Maharashtra Halal, FAMI-QS. CEPapplied
SalbutamolSulphate	Anti-asthmatic	EDMF,CEP
CetirizineDihydrochloride	Anti-allergic	EDMF
DiphenhydramineHydrochloride	Anti-allergic	EDMF, USDMF
BupropionHydrochloride	Smokingcessation	US DMF
Bisoprololfumarate	Anti-hypertensive	EDMF, USDMF
Methylcobalamine	VitaminB12	US DMF, KFSA, Kosher, Halal India, HalalIndonesia

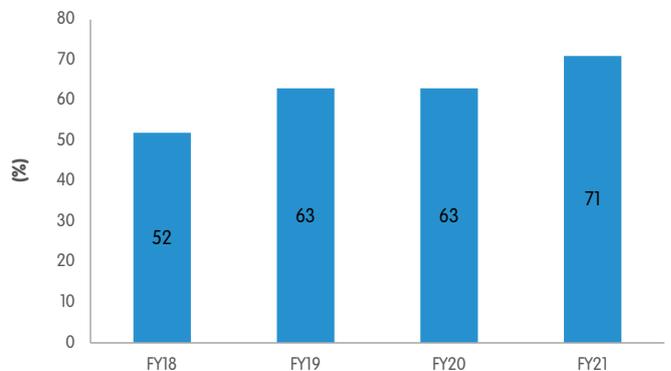
Source: RHP

Exhibit 4: Revenue share of top 10 customers



Source: RHP

Exhibit 5: Capacity Utilisation



Source: RHP

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