

Company Overview

Supriya Lifescience Limited (SLL) is 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, they have niche product offerings of 38 APIs focused on diverse therapeutic segments such as antihistamine, analgesic, anesthetic, vitamin, anti-asthmatic and anti-allergic. From April 1, 2020 until October 31 2021, their products were exported to 86 countries to 1,296 customers including 346 distributors. Their products are registered with various international regulatory authorities such as USFDA, EDQM, NMPA (previously known as SFDA), KFDA, PMDA, TGA and Taiwan FDA. As of October 31, 2021, they have filed 14 active DMFs with USFDA and eight active CEPs with EDQM, for their API products in therapeutic areas such as antihistamine, analgesic, anesthetic, vitamin, anti-asthmatic and anti-allergic. Their business operations are supported by a modern manufacturing facility located in Parshuram Lote, Maharashtra, which is approximately 250 km from Mumbai, Maharashtra.

Objects of the issue

The IPO proceed will be used towards the following purposes;

- ⇒ Funding capital expenditure requirements of the company(INR 923 Mn)
- ⇒ Repayment and/ or pre-payment, in full or part, of certain borrowings availed by the company (INR 600 Mn)
- ⇒ General corporate purposes

Investment Rationale

Significant scale with leadership position across key & niche products

The company has significant presence in the API market with niche product offerings of 38 APIs as of 31 October 2021. The company is the largest exporter of Chlorpheniramine Maleate(40-45%) and Ketamine Hydrochloride(60-65%) from India. The company is also among the largest exporter of Salbutamol Sulphate (30-40%) from India .Further , the Company also contributed to 25-30% of exports of Vitamin B2 (Riboflavin, Lactoplavin) and its salts from India in FY17 to FY21 in terms of volume. As can be seen here the Company is really good at identifying, developing and scaling up of generic molecules (off-patent) from existing therapeutic segments (Their demand is high in volume and low in competition) and thus drive relatively higher returns from investments .

Geographically diversified revenues with a global presence across 86 countries

The Company using their marketing and distribution network as well as by entering into distribution arrangements with pharmaceutical distributors in foreign markets, has exported their products to 86 countries .For the six month period ended September 30, 2021, export sales accounted for 73.6% of revenue from operations. Their clients include global pharma companies like Syntec Do Brasil LTDA, American International Chemical Inc, Suan Pharma Inc etc which are spread across various regulated markets such as USA , China , Japan as well Semi Regulated and Unregulated Markets such as Brazil , Mexico , Kenya etc . This wide and diversified geographical presence of the Company's operations, including a balanced mix of penetration in regulated and semi-regulated and non-regulated markets, coupled with niche product offerings in diverse therapeutic segments, means that their business model is well protected from concentration to a particular jurisdiction or from products of a particular therapeutic segment

Expansion of manufacturing capabilities.

The company currently has a reactor capacity of 547 KL/day from their manufacturing facility located in Parshuram Lote, Maharashtra spread across 23,806 sq. mts. The company intends to enhance this production capacity through additional capital expenditure. They have also initiated the construction of a new warehouse and administration block. For this the company has already purchased a plot of land measuring 12,551 sq.mt .As on October 31, 2021,they have already been backward integrated for 12 of their existing product and they also intend to commence production of intermediates for their other products like Diphenhydramine Hydrochloride, Cetirizine Dihydrochloride and Tramadol. This proposed expansion of manufacturing facility is intended to enhance this backward integration.

Valuation and Outlook

The promoter's technical expertise in the sector has enabled SLL to diversify its product portfolio and gain a strong foothold in the domestic and international markets. SLL occupies a healthy share in the global market for its key products and is one of the leading companies producing chlorpheniramine maleate (CPM) and ketamine. It also enjoys long-term association with reputed customers that translate into repeat orders. SLL demonstrates a sustained improvement in its scale of operations and profit margins and efficiently manages its working capital requirements, thereby reflecting notable improvement in utilization levels and free cash balances. Moreover, the issue is attractively priced at the upper end of the price band at a 16.2 P/E (based on FY 21 earnings), significantly discount to its listed peers with similar return and margin profile. Hence, we recommend a “SUBSCRIBE” rating on this issue.

Issue Details	
Offer Period	16 th Dec– 20 th Dec, 2021
Price Band	INR.265 to INR.274
Bid Lot	54
Listing	BSE&NSE
Issue Size (no. of shares in Mn)	25.54
Issue Size (INR. in Bn)	7
Face Value	2

Issue Structure	
QIB	75%
NIB	15%
Retail	10%
BRLM	ICICI Securities Axis Capital
Registrar	Link Intime India Pvt Ltd.

Particulars	Pre Issue %	Post Issue %
Promoter	100%	68.24%
Public	0%	31.76%
Total	100%	100%

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Therapeutic area wise revenue contributions (In Mn)

Therapeutic Area	FY21	H1FY22
Analgesic/anti-pyretic/anesthetic	1,189	654
Anti-histamine	1,012	657
Vitamin	533	325
Anti-asthma	396	212
Anti-allergic	277	124
Anti-malarial	203	173
Anti-hypertensive	132	36
Xanthine derivatives & Beverages	36	14
Smoking cessation	21	7
Decongestant	13	22
Feed additive	5	10

Source: RHP, BP Equities Research

Product wise revenue contributions (In %)

Product (%)	FY21	H1FY22
Chlorpheniramine Maleate	18.2%	24.2%
Ketamine Hydrochloride	27.4%	19.1%
Salbutamol Sulphate	9.9%	8.8%
Dexchlorpheniramine Maleate	2.5%	2.1%
Pheniramine Maleate	2.5%	1.3%
Bisoprolol Fumarate	3.1%	1.2%
Mepyramine Maleate/ Ppyramine	1.6%	1.1%
Dextromethorphan Hydrobromide	0.3%	1.0%
Levosulbutamol Sulphate	0.4%	0.6%
Brompheniramine Maleate	1.1%	0.5%
Allopurnol	0.0%	0.2%
Dexbrompheniramine Maleate	0.1%	0.1%

Region wise % of total revenue from operations for the specified periods

Markets	FY21	H1FY22
Regulated	38%	49%
Semi-regulated and non-regulated markets	62%	51%

Segment	FY21	H1FY22
Export sales	77%	74%
Domestic sales	23%	26%

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

Source: RHP, BP Equities Research

Particulars	FY19	FY20	FY21	H1FY22
Capacity Utilization %	63%	63%	71%	49%

Source: RHP, BP Equities Research

Key jurisdictions in which company sell their products

Region	Country	Therapy	Market
Africa	Kenya, Tanzania, Uganda, Zimbabwe, Ghana and Nigeria	Anti-histamine, anti-allergic and anti-asthmatic	Non-regulated markets
Asia	China	Anti-histamine and anti asthmatic	Regulated
Asia	South Korea	Anti-histamine, vitamin, analgesic and anti-allergic	Regulated
Asia	Cambodia, HongKong, Singapore, Phillipines, Srilanka, Taiwan, Malaysia, Thailand, Vietnam and Bangladesh	anti-histamine, anti-allergic, vitamin, anti-asthmatic and analgesic	Semi-regulated and non regulated markets
Asia	Japan	Chlorpheniramine maleate	Regulated
Europe	UK, Germany, Netherland, Spain, Switzerland, Belgium, Italy and France	Analgesic, anti-hypertensive, anti-allergic, anti-histamine, analgesic, vitamin and anti-asthmatic	Regulated
Latin America	Argentina	Anti-histamine, anti-allergic, analgesic and anti-asthmatic	Non-Regulated
Latin America	Brazil	Anti-histamine, anti-allergic, analgesic and anti-asthmatic	Regulated
Latin America	Venezuela and Chile	Anti-histamine and analgesic	Semi-regulated and non regulated
Latin America	Columbia ,Mexico and Peru	Anti-histamine, anti-allergic, analgesic, vitamin and anti-asthmatic	Semi-regulated and non regulated
North America	USA and Canada	Anti hypertensive, anti histamine, decongestant, anti-allergic, analgesic, vitamin and anti-asthmatic	Regulated

Source: RHP, BP Equities Research

List of key customers

Name	Country	Customer Type	Key Products Supplied
Mankind Pharma	India	Manufacturer	Methylcobalamine, Bisoprolol Fumrate ,Chlorpheniramine Maleate
Acme Generics LLP	India	Manufacturer	Methylcobalamine ,Chlorpheniramine Maleate ,Tramadol
Akums Drugs and Pharmaceuticals Limited	India	Manufacturer	Bisoprolol Fumarate, Chlorpheniramine Maleate, Levosalbutamol Sulphate, Bupropion Hydrochloride, Methylcobalamine Brompheniamine Malate, Chlorpheniramine Maleate, Dexchlorpheniramine Maleate, Diphenhydramine, Pheniramine Maleate, Pylamine Maleate
American International Chemical Inc	USA	Pharmaceutical Distributor	Ketamine Hydrochloride ,Mythylcobalamin ,Pylamine Maleate
Saun Farma, Inc	USA	Pharmaceutical Distributor	Pylamine Maleate ,Diphenhydramine Hydrochloride
Almat Pharmachem Inc.	Canada	Manufacturer	Diphenhydramine, Dextromethorphan Hydrobromide, Pylamine Maleate, Chlorpheniramine Maleate
Ampak Company Inc.	USA	Pharmaceutical Distributor	Pylamine Maleate ,Chlorpheniramine Maleate
LNK International Inc.	USA	Manufacturer	Ketamine Hydrochloride
Syntec Do Brasil LTDA	Brazil	Manufacturer	Ketamine Hydrochloride, Dexchlorpheniramine Maleate Chlorpheniramine Maleate ,Pheniramine Maleate, Brompheniramine Maleate
AT Planejamento e Desenvolvimento de Negocios LTDA	Brazil	Pharmaceutical Distributor	

Source: RHP, BP Equities Research



Income Statement (In mn)

Particulars	FY19	FY20	FY21	H1FY22
Revenue				
Revenue from Operations	2,778	3,116	3,854	2,248
Total Revenue	2,778	3,116	3,854	2,248
Expenses				
Material Cost	1,461	1,524	1,406	884
Changes in Inventories	8	(139)	(124)	(52)
Employee benefit expenses	190	256	328	178
Other expenses	473	492	572	304
Total Operating Expenses	2,131	2,133	2,181	1,314
EBITDA	647	984	1,673	934
Depreciation and Amortization Expense	54	64	67	49
Other Income	80	111	109	53
EBIT	673	1,031	1,715	937
Finance Cost	102	68	41	20
PBT	571	962	1,674	917
Current Tax	170	251	430	213
Deferred Tax Charge	7	(22)	5	44
Total Tax	177	228	436	257
PAT	394	734	1,238	660
Diluted EPS	5	10	17	9

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21	H1FY22
Cash Flow from operating activities	487	1,161	799	158
Cash flow from investing activities	48	(245)	(474)	(96)
Cash flow from financing activities	(497)	(292)	(149)	18
Net increase/(decrease) in cash and cash equivalents	38	623	176	80
Cash and cash equivalents at the beginning of the period	86	124	747	923
Cash and cash equivalents at the end of the period	124	747	923	1,003

Source: RHP, BP Equities Research



Balance Sheet (In mn)

Particulars	FY19	FY20	FY21	H1FY22
Liabilities				
Share Capital	146	146	146	146
Other Equity	792	1,346	2,543	3,202
Net worth	938	1,492	2,689	3,349
Lease Liabilities	25	23	21	19
Borrowings	81	24	-	-
Deferred tax liabilities(net)	97	75	80	124
Provisions	7	10	13	22
Other Financial Liabilities	33	186	195	-
Total Non Current Liabilities	244	318	309	165
Borrowings	772	767	674	710
Trade Payables	441	494	510	561
Other Financial Liabilities	45	31	27	-
Other Current Liabilities	37	225	82.11	68
Provisions	12	15	15	6
Current Tax Liabilities	41	22	152	181
Total Current Liabilities	1,349	1,554	1,460	1,527
Total Liabilities	2,531	3,364	4,458	5,041
Assets				
Property, Plant & Equipment	805	930	957	1,451
Right to use asset	21.77	18.41	14.72	12.86
Capital Work in Progress	354	402	788	342
Intangible Assets	20	32	30	31
Investments	1	1	1	1
Other Financial Assets	0.38	1.78	4.34	4.37
Other non current assets	-	-	-	-
Total Non Current Assets	1,201	1,384	1,794	1,841
Inventories	307	495	725	885
Trade Receivables	600	525	737.46	844
Cash and Cash Equivalents	17	15	311	24
Bank Balances	-	-	124	763
Other Financial Assets	107	732	488	217
Loans and Advances	124	11	12.29	13
Other Current Assets	175	203	267	456
Total Current Assets	1,329	1,980	2,664	3,200
Net Current Assets	(20)	426	1,204	1,673
Total Assets	2,531	3,364	4,458	5,041

Source: RHP, BP Equities Research

Key Risks

- ⇒ Their international operations exposes them to complex management, legal, tax and economic risks, which could adversely affect their business, results of operations and financial condition
- ⇒ Any delay in production at, disruption or shutdown of manufacturing facility, or failure to achieve optimal capacity utilization at such facility could adversely affect the business.
- ⇒ The company currently do not have any long term contractual arrangements with any of their customers and conduct business with them on the basis of their purchase orders from time to time . Further the customers may start manufacturing their own APIs . Thus this is a risk because the company is dependent on limited number of customers for a significant portion of revenues. The company is highly dependent on their ability to develop and commercialize new products in a timely manner to drive the growth of their business. This development and commercialization processes are both time consuming and costly and involve a high degree of business risk.
- ⇒ Disruption, weakness, failure of our information technology systems, breach of data, cyber threats, inability to innovate, upgrade and respond to new technological advances.

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