Stock Update

Supriya Lifescience Ltd.

Sep 09,2024

Supriya Lifescience Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Pharmaceuticals	Rs 595	Buy in the band of Rs 590-603 and add more on dips to Rs 529.5	Rs 653.5	Rs 706.5	2-3 quarters

HDFC Scrip Code	SUPRIYALIFE
BSE Code	543434
NSE Code	SUPRIYA
Bloomberg	SUPRIYA: IN
CMP Sep 06, 2024	595
Equity Capital (Rs Cr)	16.1
Face Value (Rs)	2
Equity Share O/S (Cr)	8.05
Market Cap (Rs Cr)	4781
Book Value (Rs)	101.3
Avg. 52 Wk Volumes	736805
52 Week High	614.7
52 Week Low	235

Share holding Pattern % (Jun, 2024)	
Promoters	68.3
Institutions	10.4
Non Institutions	21.3
Total	100

* Refer at the end for explanation on Risk Ratings

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Our Take:

Supriya Lifescience Ltd. is an active pharmaceuticals ingredients (API) player with a focus on niche products having limited competition. It has a niche product basket comprising 38 APIs across diverse therapeutic segments. It is the largest exporter of Chlorpheniramine Maleate and Ketamine Hydrochloride from India and is among the largest exporters of Salbutamol Sulphate from India. Supriya has 1200+ customers and has presence in more than 100 countries. Management has guided for strong growth in the US, Europe, and Latin America business over the next 2-3 years. Company reported robust growth in the US business in the past few quarters which contributed to ~10% of sales. Company is setting up two R&D centres i) At Lote Parshuram to cater to lifecycle management and backward integration projects ii) At Ambernath to cater to new molecules and CMO/CDMO opportunities. These centres would help to develop identified APIs which will complement the existing product profile. For Anaesthetic therapy, the company has initiated 3 ANDA projects and is working on ANDA projects for Anti-hypertensive and Vitamins area. Around 49% of revenue were derived from its 10 largest customers.

Supriya has 4 manufacturing blocks segregated by therapeutic area with current reactor capacity of 597KL. Capacity utilization increased to 86% as on FY24 vs. 70% as on FY23. The company has submitted 18 DMFs with US FDA while 9 CEPs from EQDM have been granted and has 4 CEPs under progress with EDQM as on Jun-2024. This would further augment product portfolio in the medium term. It has already spent around Rs 200cr in capital expenditure in the last 2 years. Management expects revenue to grow at 22-25% and EBITDA margin to be in the range of 30-32% for FY25. Management expects to double revenue to around Rs 1,000 crore by 2026-27 and revenue of around Rs 1,600 crore revenue by the year 2030. Moreover, the company said that it would be without compromising current margin profile. The company plans to spend around Rs 100cr per year in capex in the medium term.

Supriya has undertaken capacity enhancement for further backward integration for existing products, new product rollouts and CMO/CDMO opportunities. Work is in progress on the next manufacturing block (E block) at Lote Parshuram with capacity of 340 KL. A new manufacturing block with capacity of 70 KL along with a new R&D facility with Pilot plant is also being set up at Ambernath. With these projects the total capacity will increase from 597 KL to 1020 KL by Q2FY25. Management sees good opportunities in CMO/CDMO space in the long term. Recently, the company made two exclusive agreements with US and European Clients, and this would drive revenue from FY26 onwards.

We had issued report on Supriya on Dec 26, 2023 and recommended to buy in the band of Rs 297-301 for base case target of Rs 329.5 and Rs 360.5 over the 2-3 quarters (link). The stock had achieved both the targets in just about 1.5 months. Given strong robust numbers and strong growth outlook, we are issuing a stock update note on Supriya Lifescience. Given strong numbers in the last few quarters and healthy

outlook in the medium term, we have increased revenue estimate by 3.5%/1.5% for FY25/FY26, and EBITDA and net profit estimate by 22%/15% and 26.5%/19% for FY25/FY26 respectively.

Valuation & Recommendation:

Supriya is well placed with its leadership position in niche products, recent exclusive tie-ups and new product launches mainly in regulated markets. Its backward integrated facilities with geographical diversification should help drive growth momentum in the coming years. We are positive on the company on the back of strong growth trajectory in top products and expected launch of new products and commissioning of new facilities, which would drive growth in the next 2 years. Company has guided for strong double digit revenue growth of 20-23% along with margin in the band of 28-30% in the next 2-3 years.

For FY24, the company reported strong numbers across parameters. For FY24, total revenue grew 23.7% YoY at Rs 570cr. EBITDA margin expanded 230bps YoY at 30.3%. Net profit was up 32.2% YoY at Rs 119cr. Surpiya faced multiple headwinds during FY23. The Chinese market continues to remain a concern for the company because of which the management is de-risking current product basket, minimising geographical reliance, and introducing new product baskets. We estimate Revenue, EBITDA, and PAT CAGR of 20%, 24% and 26% respectively over FY24-26E. We feel investors can buy the stock in the band of Rs 590-603 and add more on declines to Rs 529.5 (22.5x FY26E EPS) for base case target of Rs 653.5 (27.75x FY26E EPS) and bull case target of Rs 706.5 (30x FY26E EPS) over the next 2-3 quarters.

Financial Summary

Particulars (Rs cr)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Revenue	161	132	21.7	158	1.5	391	530	461	570	687	819
EBITDA	63	44	40.8	56	12.7	173	214	129	173	221	266
Depreciation	5	4	17.7	4	19.2	7	10	12	16	19	23
Other Income	2	3	-24.1	2	0.0	5	8	10	11	11	13
Interest Cost	0	1	-56.3	1	-41.7	4	4	3	2	1	1
Tax	15	14	7.8	16	-6.2	44	55	34	47	55	66
PAT	45	29	56.5	37	20.9	124	152	90	119	157	189
EPS (Rs)						16.9	18.9	11.2	14.8	19.5	23.5
RoE (%)						59.2	34.4	13.7	15.7	17.6	18.0
P/E (x)						35.2	31.5	53.1	40.2	30.5	25.3
EV/EBITDA (x)						26.8	21.7	36.0	26.9	21.0	17.5

(Source: Company, HDFC sec)

Q1FY25 Result Update

Company reported better than expected numbers in the quarter. Revenue grew 21.7% YoY at Rs 160.6cr as against estimate of Rs 155cr. EBITDA margin expanded 520bps YoY at 38.9% as against expectation of 35.7%. Gross margin improved 550bps YoY at 69.7%. PAT increased 56.5% YoY at Rs 44.6cr. PBT for the quarter was up 40.4% YoY at Rs 59.8cr.

Company derived 48.5% of sales from Analgesics, 12% from Anti-histamine, 11% from Vitamins, 7% from Anti-asthmatic and the balance from others.

Company has taken additional steps for business expansion around the globe especially in north America market, Japan, Australia and New Zealand.

Supriya had initially approved a capex program at Ambernath site with an estimated capital outlay of Rs 75 crore over the next 2-3 years. Board of Directors have additionally approved capital expenditure of approx. Rs 16 crore for site development and related infrastructure on approx. 5000 sq mtr. of land for the project at Ambernath. The development of this factory would enable to set up facility required for various CDMO projects. This facility will focus on new product development, a bottling line for finished formulations, contract research development, and contract manufacturing opportunities. Once products are developed in Ambernath, they will be transferred to Lote Parshuram unit for scaling.

Company has initiated the process of setting up enhanced R&D facility. The R&D lab at Lote Parshuram spread across 800 Sq. mt. with 20 fume hoods is now commissioned and in operation. In this lab along with lifecycle management and backward integration the focus would be on new product development and CMO/CDMO opportunities.

The Ambernath lab is currently under construction and will be operational in Q2FY25 and this would be used for next phase of expansion. These will help to develop identified APIs which will complement the existing product profile. Fume hoods allow lab employees to work with potentially dangerous chemicals while minimizing the risk of exposure to toxic fumes.

The company has taken additional steps for business expansion around the globe especially in North America market, Japan, Australia and New Zealand.

CMO/CDMO

Company has recently announced the CMO project with a leading European company where Supriya will be exclusive API supplier. The contract spans a period of 10 years and is expected to generate peak revenue of Rs 40-50 crore per year starting from FY27.

In addition, the company has identified two similar opportunities in the API and advanced intermediate space, along with several other potential opportunities.

Capacity Expansion

Company is implementing capacity enhancement for further backward integration for existing products, new product rollouts and CMO/CDMO opportunities. Work is in progress on the next manufacturing block (E block) at Lote Parshuram with capacity of 340 KL to be operational by Q2FY25. A new manufacturing block with capacity of 70 KL along with a new R&D facility with Pilot plant is also being set up at Ambernath. With these projects the total capacity will increase from 597 KL to 1020 KL in Q2FY25.

EPS for the quarter stood at Rs 5.54 and it stood at Rs 14.8 for FY24.

Conference Call Highlights

- Company derived 38% of sales from Asia, 41% from Europe, 11% from Latin America, 6% from US and the balance from RoW markets.
- The growth momentum over the last couple of quarters has been driven by penetration into relatively more regulated markets. This was evident in the jump in revenue contribution of Europe and the robust growth in the anaesthetic segment. Company expects to grow its top line by 22-25% going forward.
- In CDMO segment, the company understands large scale special chemical manufacturing and has experience in handling hazardous complex process chemistry. It has Initiated discussion with various companies ranging from big pharma to innovator companies to work as a partner for supplying products as per their needs.
- Company derived ~80% of sales from International markets. Top-10 customers accounted for 45% of sales.
- Company focuses/develops those products which have less competition and strong EBITDA margin profile.
- 46% of revenue from largest therapeutic area (Analgesics/Anaesthetic) in FY24. About 75% of sales derived from top-3 therapeutic areas.
- Company had derived 45% of revenue from regulated markets in FY23 and now it has increased to 58% of sales as on FY24.
- Company has taken additional steps for business expansion around the globe especially in North America, Japan, Australia and New Zealand.
- Company generated 62% of revenue from products that were backward integrated as on Mar-2024.
- The manufacturing site in Lote Parshuram has received GMP certification from ANVISA, covering several key countries in the Latin America region. Company had cleared ANVISA audit with zero observation. Clearance of the audit enables registration of 10 APIs with CADIFA, and this would help the company to boost revenue from Brazilian pharmaceutical market. These APIs have sales potential of Rs 200cr over the next three years.
- Company aims to double its revenue in the next three years and sees potential to improve EBITDA margin. It is expanding its product

basket by adding 6-7 molecules, targeting anti-anxiety, anesthesia and anti-diabetes, and diversifying into contract development and manufacturing organization (CDMO) services which could boost margin by about 300bps in the 3 years.

- Management said that they are developing products which would be an alternative to China.
- New products addition would de-risk the business profile, however operating margin may moderate.
- Company expects to grow its top line by 22-25% with operating margin of around 30-32% for FY25.
- Company is focusing more on regulated markets. It has planned to file few products in Europe.
- Operating margin may compress to some extent due to new launches in H2FY25. It also depends upon business mix as well as product mix.
- As a part of strategy, the company focused in the last couple of quarters to derisk its portfolio and some of the other products than major products. It is trying to scale up in semi-regulated markets and then into the regulated markets.
- Supriya would look to launch products in Anti-anxiety, Anti-diabetic and Anaesthesia segments. Management said that they would launch 2-3 new products in the next 4-5 months.
- Management expects US FDA inspection at Lote Parshuram by Q4FY25.
- Revenue from regulated markets stood at 54% in Q1FY25 as against 47% in Q1FY24.
- Company is likely to spend Rs 100-110cr in capex for FY25.
- Company sees a lot of opportunities as they see customers in Latin America, Europe and US switch their sourcing from China.
- It has initiated discussion with various companies ranging from big pharma to innovator companies to work as a partner for supplying products as per their needs.

Other key Highlights

- Company anticipates growth in three areas: top-selling products, scaling up molecules in regulated markets, and new product approvals. Management aims to achieve revenue of around Rs 1000 crore in the next three years.
- The growth rates of products in the Company's portfolio vary, with some growing at 8-10% and few at 5-7%. Company expects significant contribution from CMO/CDMO projects and new APIs from FY26.
- Company foresees stable competition in most markets and geographies, except for the impact on the anti-histamine product market in China due to local manufacturers. Overall, there was not much impact from price erosion.
- There is a capacity addition of 300-350 KL which will take up the overall capacity to 1,000 KL and it is expected to get commissioned by Q2FY25.
- Company has already registered about 10 products with CADIFA. Around eight additional products are currently under registration. So, by end of Q4FY25, it will have about 17-18 products registered with the authority. These products would add topline of about Rs 200 crore in the next three years.
- DSM contract to start mostly from Q3FY25 onwards. It is likely to have volume of 25-30 MT in FY25. DSM Contract at peak revenue

potential could be Rs 60-70cr per annum.

- It takes around two to three years for any molecule to scale up significantly because it takes anywhere between 12 to 18 months for getting different kind of regulatory approvals. It takes around 6-8 months to launch the product and get the validation completed and start the commercial production. But in regulated market, it takes about 12 to 18 months to register the product.
- Company generated about 80% of sales from International markets with key being Europe region at 41% in FY24.
- Top-3 products contribution was almost similar at 43-45% for FY24.
- Company maintained its overall guidance for revenue of around Rs 1000 crore and operating margin of 28-30% for FY27. Management guided that around 20% of contribution to be from CMO/CDMO business in FY27.
- Three growth drivers for the medium term would be i) ramp up of sales from existing products and sales from regulated markets ii) CMO/CDMO opportunities iii) new products in therapeutic areas such as anti-diabetic, anaesthesia,
- Company has four products under pipeline in Anaesthesia. Supriya has done filings in US and Europe for eight to ten products from its existing portfolio. Many of these products will be backward integrated.
- All its top selling APIs, such as chlorpheniramine maleate (allergy and common-cold), ketamine hydrochloride (anaesthetic) and salbutamol sulphate (bronchodilator/Asthamatic), are backward integrated, up to the level of intermediates or key starting materials that make them less vulnerable to price and supply chain volatility.
- It has large CMO/CDMO opportunities, which will scale up in the next three years. CMO/CDMO opportunity for anaesthetic products which is an import substitute, has large global market of over US$ 300 million.
- Supriya is setting up a bottling line in Ambernath for about 5 million bottles a year. Company is likely to spend about Rs 60 crore in the next two years. It would see gradual ramp up as it will trigger regulatory inspections from authorities. So, for the first year, the capacity utilization may remain on a lower side. In the second and third year, the capacity utilization would be better.
- On both expansion projects, the Lote side, module E is a dedicated production block, which will have around 350 KL of capacity. Actually it started production recently but only for validation batches.
- The company is focused on expanding presence into Brazil and Mexico, which are emerging regulatory markets for APIs.
- The addition of CDMO capabilities would provide a new leg of growth for the company. As per management, this business is expected to contribute Rs 120-150 crore to revenue in the next 3 years.
- These are the two main areas for the CDMO opportunities that it will also start scaling up the whey protein which was announced two quarters back. DSM is the name of the company with whom it has tied up for the vitamin product. So, those volumes will also start coming in.
- Key products have 100% backward integration; the company is in the process to backward integrate few more products. Higher revenue from regulated markets and backward integration benefits would help in margin expansion in the coming years.
- There have been changes in the norms in Brazil for certifications. GMP certification is required for the same. This should help players like Supriya in the medium term.

- Out of the three collaborations, the plasma nutrition the protein project that would be slightly faster as compared to the other two. For the plasma nutrition, the company has already started manufacturing some small trial quantities of samples and started giving them to all the larger protein distributors.

Key Triggers

New R&D Centres

Company has initiated process of setting up enhanced R&D facility. The R&D lab at Lote Parshuram is spread across 800 Sq. mt. In this lab along with lifecycle management and backward integration the focus would be on new product development and CMO/CDMO opportunities. The Ambernath lab is currently under construction and will be operational in the near term and this would be used for next phase of expansion. These centres will help to develop identified APIs which will complement existing product profile. Ambernath would be around 70 to 100 KL depending again on the kind of product mix, it is multiproduct facility. It has acquired a plot at Isambe, that would be for the next leg of growth.

Controlled drugs portfolio would be expanded, identification of potential APIs have been done which are in development pipeline, also evaluating product portfolio expansion by selecting products in anti-diabetic and CNS range. Company has taken additional steps for business expansion around the globe especially in north America market, Japan, Australia and New Zealand.

Backward Integration of key molecules augurs well from cost competitiveness and availability perspectives

Supriya's manufacturing capabilities range from development of simple molecules to highly complex molecules with expertise in different class of reactions. It has implemented backward integration for its API products to have control over the supply chain process (intermediates). 15 products are backward integrated, which contributed about 65-68% of its total revenue and it is in the process to further backward integrate 3 more products in the medium term. It helps the company to have sustainable business and reduce dependency on external sources. This ensures better quality and security of availability of essential raw materials which acts as one of its key strengths. Company would continue to grow sales in existing geographies in Latin America, North America, Europe and Asia led by steady growth in the existing products and new launches.

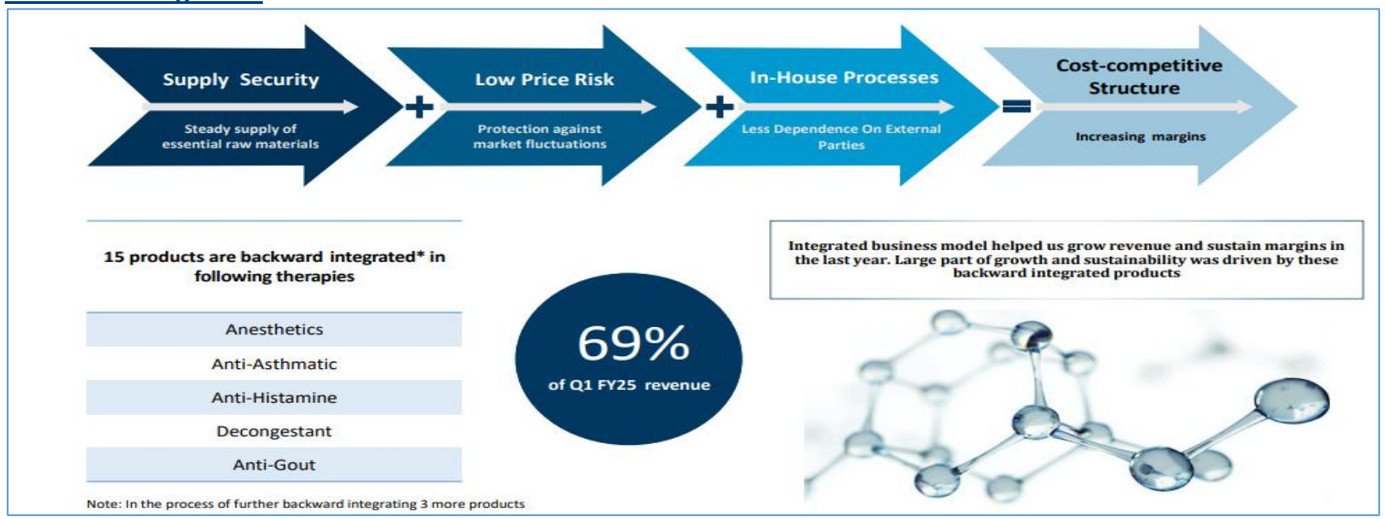
De-risking of portfolio and scale up of molecules on cards, capex to help in organic growth

Company is diversifying its product portfolio with its strong pipeline. Focus would mainly remain to eliminate the risk associated with dependence on a few APIs. Supriya has filed 18 DMFs with the US FDA and 9 active CEPs with EDQM for their API products in therapeutic areas such as anti-histamine, analgesic, anaesthetic, vitamins, anti-asthmatic and anti-allergic. Company has approval for 10 products from CADIFA Brazil and 4 CEPs under progress as on Jun-2024. It will continue to focus on developing and filing of more DMFs in the area of niche and differentiated products which provide better growth opportunities and would help in developing its business.

Supriya has started capex for 'E' Block and the work is in progress at Lote, Parshuram with capacity of 340 KL to replace old block with 145 KL capacity. A new manufacturing block with capacity of 70 KL along with a new R&D facility with Pilot plant is also being set up at Ambernath. Scale up of the newer products would be coming from the new block as total capacity will increase from 597KL to 1020KL.

Management expects to double revenue to around Rs 1,000 crore by 2026-27 and revenue of around Rs 1,600 crore revenue by the year 2030. Moreover, the company said that it would be without compromising current margin profile. The company plans to spend around Rs 100cr per year in capex in the medium term.

Backward Integration



(Source: Company, HDFC sec)

Presence in molecules in mature therapies with relatively higher product concentration

Supriya has established itself as the leading exporter of its key molecules with 45-50% share of the total exports of Chlorpheniramine Maleate from India, 60-65% share for Ketamine Hydrochloride and 30-40% for Salbutamol Sulphate. Being the market leader for its key products with manufacturing facilities approved by major regulatory authorities (US FDA, EDQM, WHO etc.) across the world, which helps the company to command a price premium over its peers, leading to better margin profile.

Supriya's presence is limited to molecules in relatively mature therapies, including Anaesthetic/Analgesic and Anti-Histamine which contributed to 71% of total sales in FY24. The key molecules manufactured are Ketamine Hydrochloride, Chlorpheniramine Maleate and

Salbutamol Sulphate that contributed to ~60% of its total sales, resulting in relatively higher product concentration. However, product diversification is expected to improve with the launch of new molecules which are under submission. Company is also exploring opportunities in the CMO/CDMO space with several products under development that are likely to support revenue growth over the medium term.

Venturing into new markets and update on CMO/CDMO projects

To reduce customer concentration and expand market reach, the company has devised a strategy to introduce its existing products into new geographies. Furthermore, the company is in the process of constructing two additional R&D centers at Lote Parshuram and Ambernath to focus on developing new niche items with significant volume potential.

Over the past 12 months, the company has made significant progress in CMO/CDMO services. Supriya has secured a key contract manufacturing organization (CMO) project with a leading European company. This contract spans over a period of 10 years and is expected to generate peak revenue of Rs 40-50 crore, starting from FY27.

In addition to this project, the company has identified two similar opportunities in the API and advanced intermediate space, indicating potential growth prospects. Company has initiated discussion with various companies ranging from big pharma to innovator companies to work as a partner for supplying products as per their needs. Management guided that around 20% of contribution to be from CMO/CDMO business in FY27.

Recently, the company announced a capex program at Ambernath site with an estimated capital outlay of Rs 60 crore over the next 2 years. It will be for site development and related infrastructure on approx. 5000 sq mtr. of land for project at Ambernath. It would be majorly funded out of internal accruals. The development of this factory will enable to set up facility required for various CDMO projects. Recently, Board has additionally approved capital expenditure of Rs 15 crore for site development at Ambernath.

Company received GMP certification from ANVISA Brazil

Supriya Lifescience announced that its manufacturing site in Lote Parshuram has received Good Manufacturing Practice (GMP) certification from the Regulatory Authority of Brazil, ANVISA. The facility passed the Brazilian Good Manufacturing Practice (GMP) inspection with Zero observation in terms of compliance. The clearance of this audit marked the successful registration of 10 APIs with CADIFA and would further enable smoother and faster registration of the company’s other APIs. This paves the way to acquire more customers in the Brazilian Pharmaceutical market. These APIs have sales potential of Rs 200cr over the next three years.

Brazil's GMP review is known to be challenging, involving stringent requirements. ANVISA actively conducts on-site inspections overseas, meticulously examines not only pharmaceutical quality management on-site but also data integrity, manufacturing facilities, and compliance

with GMP in production processes. Clean regulatory compliance track record at all its manufacturing sites augur well for the company.

Supriya and Plasma Nutrition Inc. announced collaboration in Protein Technology

Supriya Lifescience Ltd had announced its collaboration with Plasma Nutrition, Inc, a renowned US-based company known for innovative consumer products located at Delaware. The strategic partnership involves an exclusive technology licensing agreement, granting Supriya Lifescience Ltd the sole rights for manufacturing and marketing Ingredient Optimized Protein (ioProtein) in India. The primary purpose of this collaboration is to bring the optimized protein into the Indian market. ioProtein is a patented process (patent pending in the US) This revolutionary protein powder is designed for use as protein supplements and boasts a significant advantage, and it is highly bioavailable.

Supriya will lead the manufacturing and marketing of ioProtein in India. This marks the introduction of a new category of protein powders in the Indian market, and it is relatively healthier compared to other popular protein powders available through various Gyms, general stores, and digital marketing channels.

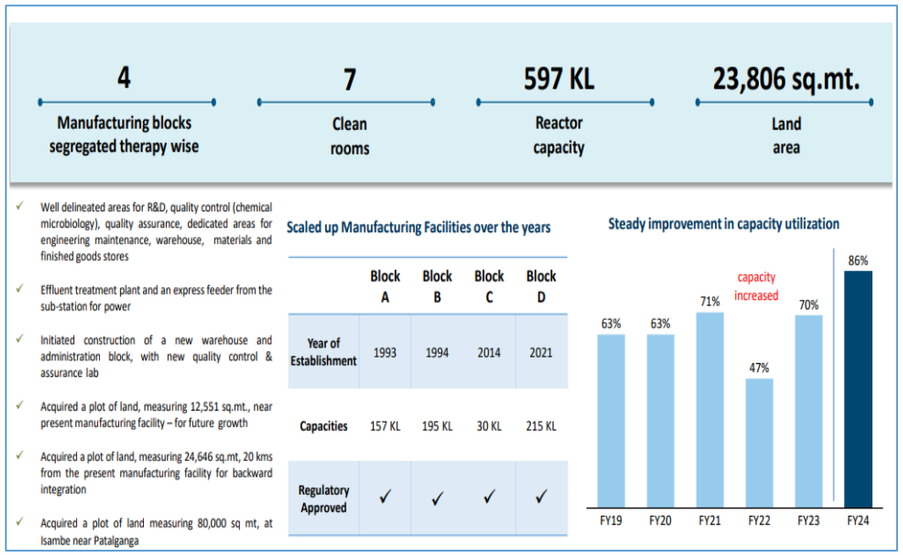
Supriya signed an agreement with Kalinga Institute for further development of wound healing gel

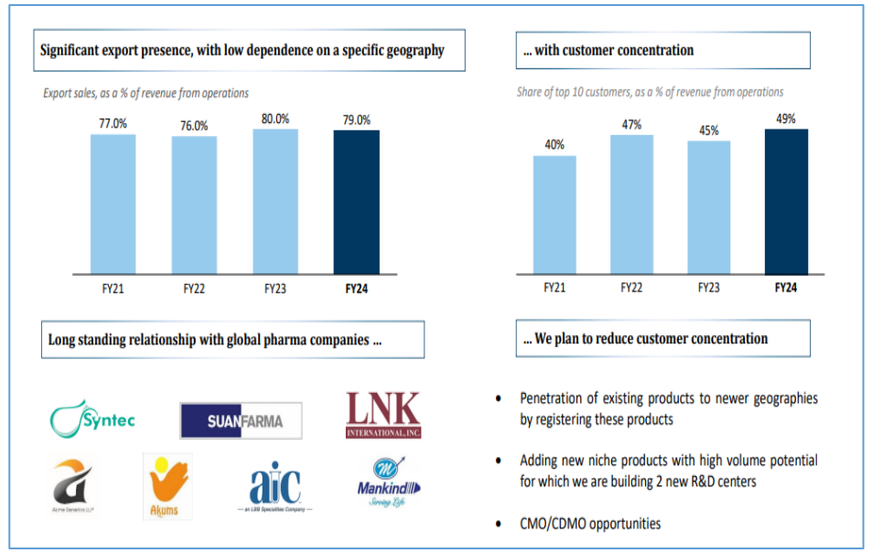
In Nov-2023, Supriya Lifescience had signed an agreement with Kalinga Institute of Technology for further development of GelHeal. The gel-based cream may prove to be prolific in easing and healing not only third-degree wounds, cuts, bite wounds but also diabetic foot ulcers, pressure ulcers, venous leg ulcers and surgery wounds. This radical shift in dermatology and skin grafting would also now cater to scar-free skin, not mandating repetitive hospitalization through the topical formulation for skin regeneration gel, thus proving cost cost-effective and less time-consuming medical solution. Quickblue, an oral cancer diagnosis kit allows patients to discover cancer cells in minutes, which is advanced over current traditional approaches such as biopsy. This product is not only a cheaper option but also found very sensitive detector.

Outlook

The company intends to enter the pain management, anti-anxiety and anti-diabetic segments. These portfolio additions present growth opportunities leading to business sustainability. The company is confident of sustained growth across the foreseeable quarters and doubling capacity by Q3 FY25. Company's North American presence grew 140% YoY during the year, attributed to increasing traction of Maleate Group and Ketamine. The market's growth was supported by the positive response to other therapeutic category molecules and there is scope for a further expansion in this geography leading to attractive revenue possibilities.

Europe continued to remain one of the company's largest regulated markets, accounting for 41% of revenue as on FY24. As of Mar-2024, the company has submitted 18 active Drug Master Files (DMFs) to the US FDA, and 9 active Certificates of Suitability (CEPs) to the European Directorate for the Quality of Medicines & Healthcare (EDQM) for API products.





CDMO

India is becoming a preferred destination for outsourcing the pharmaceutical activities across pharma value chain. Global pharmaceutical players are continuously witnessing cost pressures and looking for ways to shorten time to market. So, the industry is looking for established CDMO partners, particularly in Asian markets such as India and China. China may not be the most preferred partner for CDMO outsourcing on account of regulatory headwinds in China, closure of certain API and chemical companies on account of environment pollution, and political confrontations with the developed economies of the world. Over the last decade, Indian CDMO companies have demonstrated their capabilities on the global platform and are well-positioned to benefit from increased R&D outsourcing in the pharmaceutical industry.

Company supports drug development and manufacturing programs for global pharmaceutical and biotech companies at all stages from pre-clinical stage to commercialization. The development and manufacturing teams maintain a tight focus on performance at scale, continuous process improvement, securing and de-risking supply chains to provide an efficient, compliant, cost-effective and long-term commercial drug substance and drug product solutions.

FY24 was challenging for the research services industry as a whole as US biotech funding challenges impacted client spending on research projects. However, there was recovery seen in Q4FY24. With increasing R&D spend and propensity to outsource, the long term growth drivers for the industry are intact. Furthermore, India's concerted effort to position itself as an attractive outsourcing destination, coupled

with a strategic drive to increase supply chain resilience, may yield long-term advantages. While short-term challenges may arise due to funding issues or pharmaceutical companies focusing their efforts on late-stage pipeline projects, the sustained investment in pipeline development is expected to persist in the long run. In the dedicated centers, the Company will continue to focus on the needs of its long-term strategic partners through investment in new capabilities and continuous improvement in services.

CDMOs specialize in the development, scale-up and manufacturing of drug products for clinical trials and commercial distribution. They offer a range of services that include drug development, process development, analytical testing, formulation development, scale-up, manufacturing, packaging and distribution. These services can be provided on a stand-alone basis, or as part of a complete end-to-end service offering. i) Contract development and manufacturing services – market size and attributes The global CDMO market (comprising small and large molecules) was valued at US$ 82 billion in 2023 and is expected to grow at a CAGR of 14% to reach a market size of US$ 208 billion in 2030. Like the CRO market, the growth in CDMO activity has accelerated, driven by the increased outsourcing.

Key Risks

- Company faces product concentration risk as top-5 products contribute major portion of their revenue. Any delay in development and commercialization of newer products could impact future growth prospects of the company.
- Its inability to effectively utilize its manufacturing capacities could have an adverse effect on the business.
- Company derived around 48% of revenue from Top-10 customers. Though the company has long standing relationships with its key customers, if the company loses any of these clients, then it may impact overall performance.
- Supriya has molecules in mature therapies including anti-histamine, analgesic/anesthetic therapies and others, which exposes it to competitive environment. Company chooses products which are mature and where demand is not likely to taper off soon. Also, the company avoids products that have recently gone off patent to avoid price wars.
- Regulatory compliance – While Supriya has maintained a high regulatory compliance, however the company is exposed to the risk of regulatory issues as the company derives > 80% of revenue from international markets. Any adverse action from regulatory authorities could hinder its growth prospects.
- Large fluctuations in foreign exchange may impact the company as more than 80% of revenue come from exports business.

Company Background

Supriya Lifescience Ltd. manufactures and exports various APIs across therapeutic areas. Its manufacturing unit is in Ratnagiri district, Maharashtra with a current annual production capacity of 597 KL across 4 manufacturing blocks. The company has R&D unit located at the manufacturing site, recognised by the Department of Scientific and Industrial Research (DSIR) which is a part of the Ministry of Science and Technology. Company derived 49% of sales from top-10 customers in FY24 as compared to 47% in FY22. The company holds World Health Organisation (WHO) Good manufacturing practice (GMP), EU GMP, European Directorate for the Quality of Medicines & Healthcare (EDQM), US FDA, Korean FDA, Mexican FDA certifications for manufacturing various bulk drugs. It is backed by strong R&D, 15 active US DMFs, 9 active CEPs and worldwide compliant facilities (EMA, US FDA, WHO, PMDA, TGA, ANVISA etc.). The product portfolio includes over 38

products and it has a global footprint across 80+ countries. With these projects the total capacity will increase from 597 KL to 1020 KL by Q2FY25.

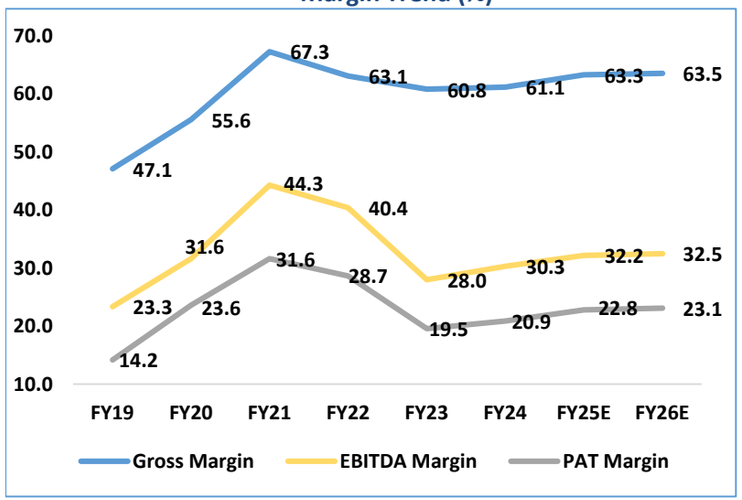
Peer Comparison

Company	Mcap (Rs cr)	Revenue (Rs cr)				EBITDA Margin (%)				PAT				RoE			
		FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E
Laurus Labs	25960	6041	5041	5747	6741	26.4	15.5	18.0	20.8	793	162	327	611	18.5	6.2	7.8	12.7
Orchid Pharma	7561	666	819	987	1308	12.6	13.6	16.0	17.4	46	92	132	187	7.7	9.8	10.0	13.2
Supriya Lifescience	4781	461	570	687	819	28.0	30.3	32.2	32.5	90	119	157	189	13.7	15.7	17.6	18.0
Aarti Drugs	5090	2716	2529	2731	3059	11.3	12.5	13.1	14.6	166	172	204	262	13.7	12.8	15	18.2

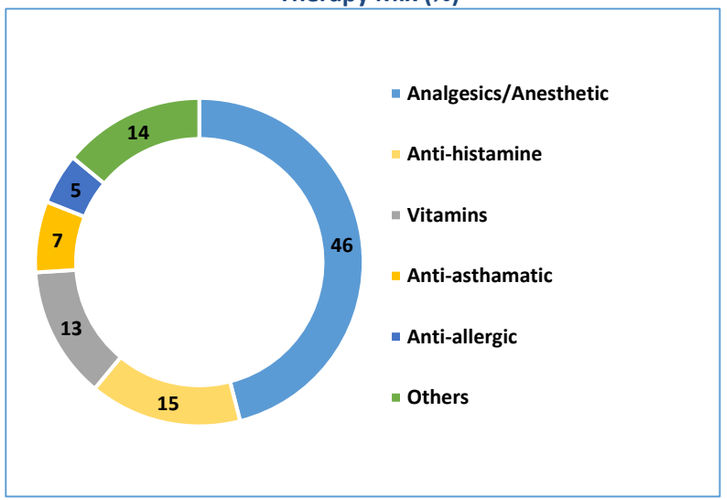
Company	EV/EBITDA (x)				P/E (x)			
	FY23	FY24	FY25E	FY26E	FY23	FY24	FY25E	FY26E
Laurus Labs	17.3	35.2	26.5	19.2	32.7	160.2	79.4	42.5
Orchid Pharma	85	59.3	39.5	28.0	164.4	82.2	57.3	40.4
Supriya Lifescience	36.0	26.9	21.0	17.5	53.1	40.2	30.5	25.3
Aarti Drugs	17.3	16.7	14.8	11.8	30.7	29.6	24.9	19.5

(Source: Company, HDFC sec)

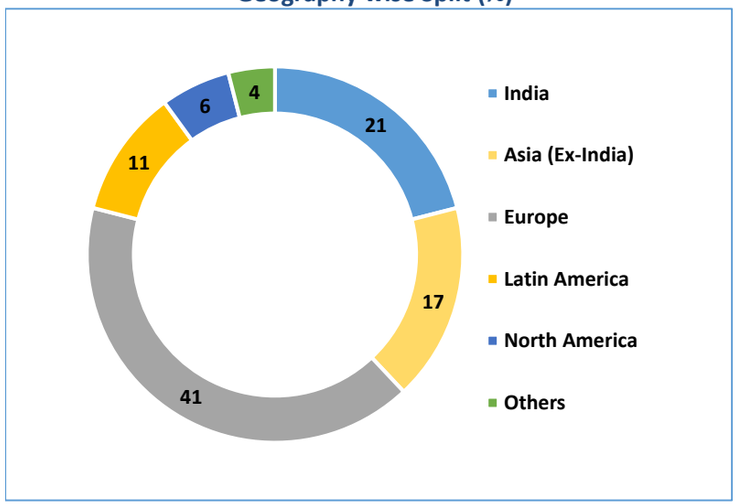
Margin Trend (%)



Therapy Mix (%)



Geography wise Split (%)



Financials

Income Statement

(Rs Cr)	FY22	FY23	FY24	FY25E	FY26E
Net Revenue	530	461	570	687	819
Growth (%)	35.5	-13.0	23.7	20.5	19.2
Operating Expenses	316	332	398	466	553
EBITDA	**214**	**129**	**173**	**221**	**266**
Growth (%)	23.6	-39.7	34.0	28.0	20.3
EBITDA Margin (%)	40.4	28.0	30.3	32.2	32.5
Depreciation	10	12	16	19	23
EBIT	204	117	157	202	243
Other Income	8	10	11	11	13
Interest expenses	4	3	2	1	1
PBT	207	124	166	212	255
Tax	55	34	47	55	66
RPAT	**152**	**90**	**119**	**157**	**189**
Growth (%)	22.8	-40.7	32.2	31.7	20.8
EPS	18.9	11.2	14.8	19.5	23.5

Balance Sheet

As at March	FY22	FY23	FY24	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	16.1	16.1	16.1	16.1	16.1
Reserves	600	683	799	946	1121
Shareholders' Funds	**616**	**699**	**815**	**962**	**1137**
Long Term Debt	0	0	0	0	0
Net Deferred Taxes	11	14	23	22	24
Long Term Provisions & Others	8	11	6	10	14
Total Source of Funds	**635**	**724**	**844**	**994**	**1175**
APPLICATION OF FUNDS					
Net Block	232	328	457	558	615
Intangible Assets	2	1	2	2	2
Non-Current Investments	0	25	64	69	77
Long Term Loans & Advances	4	1	1	2	7
Total Non-Current Assets	**237**	**355**	**524**	**631**	**701**
Inventories	92	116	85	122	150
Trade Receivables	115	85	112	134	161
Short term Loans & Advances	1	1	1	1	2
Cash & Equivalents	228	158	75	60	118
Other Current Assets	62	106	125	141	159
Total Current Assets	**498**	**465**	**398**	**458**	**591**
Short-Term Borrowings	22	17	1	2	3
Trade Payables	49	64	60	74	91
Other Current Liab & Provisions	28	14	17	18	22
Total Current Liabilities	**100**	**96**	**77**	**94**	**117**
Net Current Assets	398	369	321	363	474
Total Application of Funds	**635**	**724**	**844**	**994**	**1175**

(Source: Company, HDFC sec)

Supriya Lifescience Ltd.

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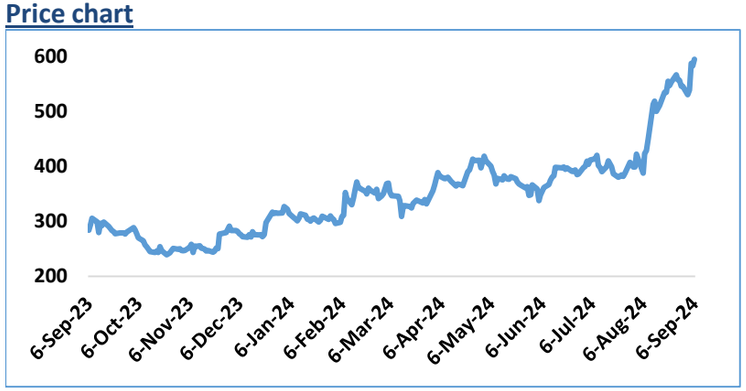
Cash Flow Statement

(Rs Cr)	FY22	FY23	FY24	FY25E	FY26E
Reported PBT	207	124	166	212	255
Non-operating & EO items	-8	-10	-11	-11	-13
Interest Expenses	4	3	2	1	1
Depreciation	10	12	16	19	23
Working Capital Change	-104	-35	-22	-58	-53
Tax Paid	-61	-31	-38	-55	-66
OPERATING CASH FLOW (a)	**49**	**64**	**113**	**109**	**148**
Capex	-60	-109	-146	-120	-80
Free Cash Flow	-11	-45	-32	-11	68
Investments	-8	-25	-39	-7	-13
Non-operating income	8	10	11	11	13
INVESTING CASH FLOW (b)	**-60**	**-124**	**-174**	**-115**	**-80**
Debt Issuance / (Repaid)	-48	-3	-15	3	6
Interest Expenses	-4	-3	-2	-1	-1
FCFE	-63	-50	-50	-10	73
Share Capital	1	0	0	0	0
Dividend/Buyback	0	-5	-5	-10	-15
FINANCING CASH FLOW (c)	**150**	**-10**	**-22**	**-8**	**-10**
NET CASH FLOW (a+b+c)	**139**	**-70**	**-83**	**-15**	**58**

Price chart



Key Ratios

	FY22	FY23	FY24	FY25E	FY26E
Profitability (%)					
Gross Margin	63.1	60.8	61.1	63.3	63.5
EBITDA Margin	40.4	28.0	30.3	32.2	32.5
EBIT Margin	38.5	25.4	27.5	29.4	29.7
PAT Margin	28.7	19.5	20.9	22.8	23.1
RoE	34.4	13.7	15.7	17.6	18.0
RoCE	32.1	16.2	18.6	20.3	20.7
Solvency Ratio (x)					
Net Debt/EBITDA	-1.0	-1.1	-0.4	-0.3	-0.4
D/E	0.04	0.0	0.0	0.0	0.0
Net D/E	-0.3	-0.2	-0.1	-0.1	-0.1
PER SHARE DATA (Rs)					
EPS	18.9	11.2	14.8	19.5	23.5
CEPS	20.1	12.7	16.8	21.9	26.4
BV	76	87	101.3	120	141
Dividend	0.6	0.6	0.8	1.1	1.7
Turnover Ratios					
Debtor days	79	67	71	71	72
Inventory days	57	82	64	65	67
Creditors days	67	85	66	70	73
VALUATION (x)					
P/E	31.5	53.1	40.2	30.5	25.3
P/BV	7.8	6.8	5.9	5.0	4.2
EV/EBITDA	21.7	36.0	26.9	21.0	17.5
EV / Revenue	8.8	10.1	8.1	6.8	5.7
Dividend Payout (%)	3.2	5.4	5.4	5.6	7.2

(Source: Company, HDFC sec)

Kushal Mahendra Rughani

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This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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