

SUPRIYA LIFESCIENCE LTD.



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Muted performance on account of multiple macro headwinds

CMP INR 220	Target INR 278	Potential Upside 26.4%	Market Cap (INRmn) INR 17,625	Recommendation BUY	Sector Pharma
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Result Highlights of Q3FY23:

- During Q3FY23, Supriya lifesciences Ltd. reported a revenue of INR 1051mn, which dropped by 13.5% YoY and 6.1% QoQ as a result of headwinds faced by the firm in the China markets but marginally offset by the demand from other Asian countries.
- On the operational front, EBITDA decreased to INR 140.4mn, a decrease of by 67.9% YoY (-72.8% QoQ). The EBITDA margins stood at 13.4% (-2266 bps YoY, -3271 bps QoQ). The margins were impacted due to an increase in labour costs, power and repairs and maintenance.
- There was a significant drop in PAT for the quarter, it fell to INR 95.18mn (-76.0% YoY, -43.3% QoQ). Net profit margins is at 9.1% (-2351 bps YoY, -595 bps QoQ)
- The reported EPS for the quarter is INR 1.18, declined from INR 2.10 in Q2FY23 and 4.93 in Q3FY22.

MARKET DATA

Shares outs (mn)	80
Mkt Cap (INRmn)	17625
52 Wk H/L (INR)	515.35/179.1
Volume Avg (3m K)	250
Face Value (INR)	2
Bloomberg Code	SUPRIYA IN

KEY FINANCIALS

INRmn	Q3FY23	Q3FY22	YoY	Q2FY23	QoQ
Revenue	1,051.4	1,216.0	-13.5%	1,120.0	-6.1%
EBITDA	140.4	438.0	-67.9%	516.0	-72.8%
PAT	95.2	396.0	-76.0%	168.0	-43.3%
EBITDA Margin (%)	13.4%	36.0%	-2266bps	46.1%	-3271bps
NPM (%)	9.1%	32.6%	-2351bps	15.0%	-595bps

Source: Company, KRChoksey Research

Sharp decline in performance, hampered demand for anti-histamine therapy:

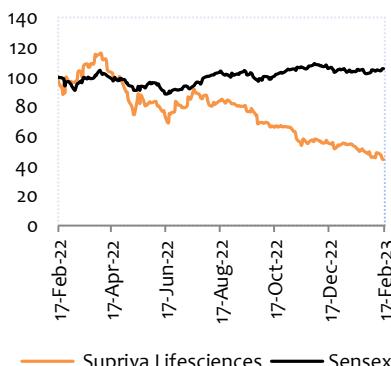
Supriya Life Science's revenue has significantly declined in Q3FY23. The revenues stood at INR 1051.4mn against INR 1120.0mn in Q2FY23. The operating revenue for the 9 months was INR 3186.0mn Vs INR 3418.0mn in 9MFY22. During the quarter, the company's revenue was impacted by a slowdown in demand in a key market, namely China, as well as lower offtake for key products. Besides this, the increase in employee costs, power expenses, repairs and maintenance costs led the EBITDA margin to drop by 3271 bps on QoQ to 13.4%. On the basis of 9MFY23, Analgesic/Anesthetic, Anti histimatic and Anti-allergic increased their contribution to 43% (40% in 9MFY22), 13% (9% in 9MFY22) and 9% (6% in 9MFY22), whereas contributions declined to 13% (19% in 9MFY22), 12% (14% in 9MFY22) and 2% (8% in 9MFY22) for Anti histamine, vitamins and Anti-malarial respectively. SLL's top 12 products has contributed 72% of the total revenue.

The fall in revenue was on account of low demand from the Chinese market for its key therapy i.e Antihistamine. Due to the COVID in China, usage of hand sanitisers and masks increased and people staying indoors; thereby the demand for its antihistamine range has significantly dropped. The management has highlighted that improvement will be gradual and it will take another 2-3 quarters for the situation to normalise. Further, to mitigate this impact, SLL is expanding regulatory market presence, optimizing manufacturing capacity, and diversifying product offerings and geographic reach.

Update on CMO/CDMO project:

The company has initiated discussions with companies ranging from major pharma to innovator companies to work as partners in supplying products. The management has highlighted that the company is in various stages of development for five projects, including the building of laboratory processes for these projects. The management believes that as new capacity is being setup in Ambernath, more opportunities will be pursued. They are now working on two more CMO/CDMO projects that have moved to Phase II and they expect to initiate the regulatory filing in Q4FY23.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	61,000
NIFTY	17,944

SHARE HOLDING PATTERN (%)

Particulars	Dec-22	Sep-22	Jun-22
Promoters	68.24	68.24	68.24
FII's	6.24	6.79	5.99
DII's	7.89	8.88	10.33
Others	17.62	16.09	15.44
Total	100	100	100

7.31%

Revenue CAGR
between FY22 - FY25E

1.78%

PAT CAGR between
FY22 - FY25E

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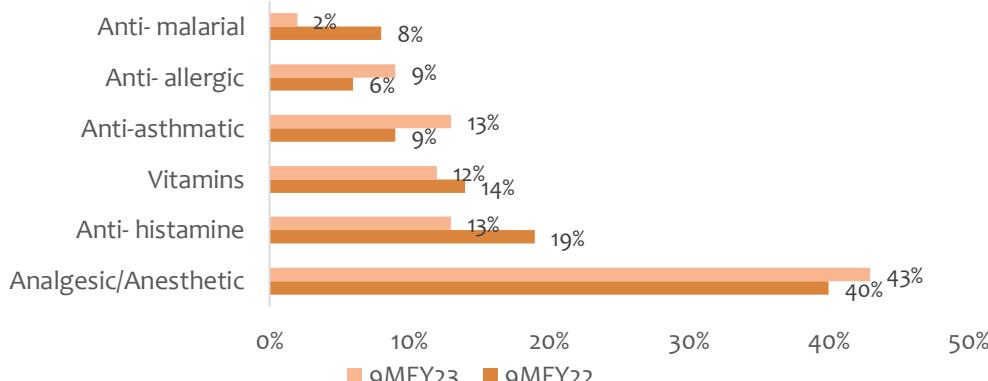
Valuation and view:

Supriya Lifesciences faced multiple headwinds during the quarter from the Chinese markets and supply challenges; however, same is expected to be stable in the next 2-3 quarters. With its potential to register products in regulated markets, we think SLL is in a good position to generate modest topline growth while maintaining stable margins in the upcoming quarters. Currently, it is trading at 22.34x/11.06x on FY24E/FY25E earnings. In last couple of months, the stock price has corrected drastically due to multiple headwinds including resignations from the senior management team, external uncertainty and Covid in China. **At CMP, we maintain a “BUY” rating on the stock with a revised target price of INR 278/share, applying PE multiple of 14x on FY25E EPS, giving upside of 26.4% on CMP.**

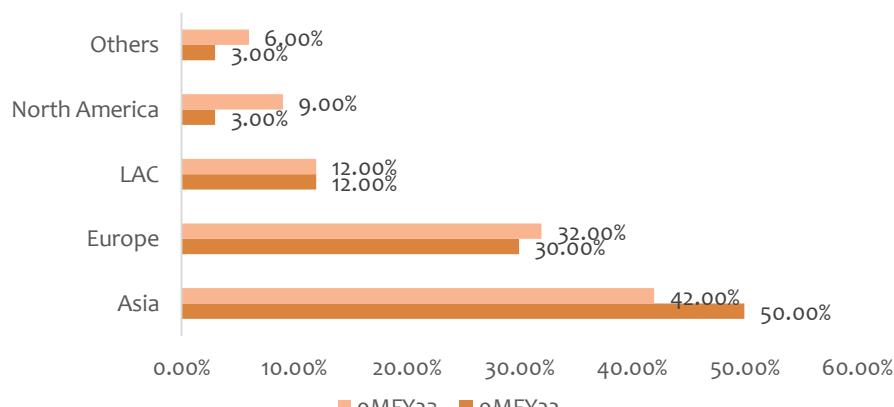
Key Concall Highlights:

- The primary focus of the company is on expanding its regulatory market presence with new emerging markets, backward integration, and manufacturing capacity optimization. The company's top 12 products contribute 72% of the total revenue. The current capacity utilization is at 72%, which is expected to go up, while recent debottlenecking activity would enable the company to increase the volumes of certain individual products.
- Since the company has a leadership position in the Antihistamine range to which China is the largest market, the demand for Antihistamine products has declined due to the Covid situation. The situation in China remains dire and the management anticipates a similar trend in the coming quarters.
- The management has been working on a de-risking strategy to minimise the impact of the dependence on a particular product and geographies. The management plans to extend their backward integration model to their newer products to stay competitive. It also intends to strengthen its senior management team.
- The management has enhanced the capacities and initiated registration for other therapies such as Decongestion, Antihypertensive Anti-Asthmatic, Vitamins and Anti-allergic. Since these therapies have good volume potential in regulated markets, company will start seeing good traction from these therapies in the next two quarters. The company expects Europe, North American market, Latin American markets, to be the larger contributors in regulated market space.
- The capacity enhancement work is going on for the E block which will add 350 KL capacity and it is expected to be operational by Q4FY24.
- The company is in the process of negotiating two new CMO opportunities, and management anticipates that the products will begin contributing to the top and bottom lines in Q3 FY24.

Segmental mix YoY



Geographical mix YoY



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

Income Statement (INRmn)	FY 20	FY 21	FY 22	FY 23E	FY 24E	FY25E
Revenues	3,116	3,912	5,300	4,296	5,007	6,549
Other income	1,385	1,281	1,958	1,873	2,193	2,574
COGS	1,732	2,631	3,342	2,423	2,814	3,975
Gross profit	256	328	491	760	801	851
Employee cost	492	572	712	775	901	982
Other expenses	984	1,731	2,140	888	1,112	2,141
EBITDA	64	67	101	120	120	120
Depreciation & amortization	920	1,664	2,039	768	992	2,021
EBIT	68	41	42	35	35	35
Interest expense	111	50	76	102	100	120
PBT	962	1,674	2,073	835	1,057	2,106
Tax	228	436	554	217	264	506
Exceptional item	0	0	0	0	0	0
PAT	734	1,238	1,519	618	792	1,601
EPS (INR)	10.0	16.9	18.9	7.7	9.8	19.9

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

Cash Flow statement (INRmn)	FY 20	FY 21	FY 22	FY 23E	FY 24E	FY25E
Operating Cash Flow	1161	759	488	1466	758	1345
Investing Cash Flow	-245	-468	-598	-300	-300	-300
Financing Cash Flow	-292	-145	1497	-79	-79	-79
Net Inc/Dec in cash equivalents	623	146	1386	1087	379	966
Opening Balance	124	747	893	2279	3366	3745
Closing Balance Cash & Cash Equiv.	747	893	2279	3366	3745	4711

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY20	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margins (%)	31.57%	44.26%	40.37%	20.66%	22.20%	32.69%
Net Profit Margin (%)	23.55%	31.59%	28.64%	14.38%	15.83%	24.44%
RoE^ (%)	49.20%	46.02%	24.66%	9.18%	10.59%	17.72%
RoCE^ (%)	40.31%	49.12%	32.01%	11.05%	12.89%	21.85%
RoA (%)	21.82%	27.74%	20.66%	7.83%	9.05%	15.12%
Debt/Equity	0.53	0.26	0.03	0.03	0.03	0.02

[^]ROE & ROCE has been adjusted with latest post issue equity for FY23E/24E/25E.

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

Balance Sheet (INR mn)	FY20	FY21	FY22	FY23E	FY 24E	FY 25E
Property, plant and equipment	930	970	1825	2005	2185	2365
Right to use assets	18	15	58	58	58	58
Capital work in progress	402	788	434	434	434	434
Intangible assets	32	16	15	15	15	15
Financial assets	0	0	0	0	0	0
Investments	1	1	1	1	1	1
Other financial assets	2	0	0	0	0	0
Other current assets	0	11	40	40	40	40
Total non current assets	1,384	1,800	2,372	2,552	2,732	2,912
Current assets						
Inventories	495	725	923	753	878	1148
Financial assets						
Trade receivables	525	735	1152	847	988	1292
Cash and cash equivalents	15	893	2279	3366	3745	4711
Other financial assets	732	30	60	60	60	60
Loans and advances	11	5	6	6	6	6
Other current assets	203	267	555	301	350	458
Total current assets	1,980	2,655	4,975	5,333	6,027	7,676
TOTAL ASSETS	3,364	4,455	7,348	7,885	8,759	10,588
EQUITY AND LIABILITIES						
Equity						
Equity share capital	146	146	161	161	161	161
Other equity	1346	2539	5996	6570	7318	8875
Total equity	1,492	2,686	6,157	6,731	7,479	9,036
Liabilities						
Non-current liabilities						
Financial liabilities						
Borrowings	24	0	0	0	0	0
Lease liabilities	23	21	53	53	53	53
Other financial liabilities	186	195	0	0	0	0
Provisions	10	13	29	15	18	23
Deferred tax liabilities (Net)	75	80	111	111	111	111
Total non-current liabilities	318	309	194	179	182	187
Current liabilities						
Financial liabilities						
Borrowings	767	701	213	213	213	213
Trade payables	494	510	490	577	672	879
Other financial liabilities	31	6	8	8	8	8
Provisions	15	9	4	4	4	4
Other current liabilities	225	234	274	165	193	252
Current tax liabilities (Net)	0	0	8	8	8	8
Total current liabilities	1,532	1,460	997	975	1,098	1,365
Total liabilities	1,851	1,769	1,191	1,155	1,280	1,552
TOTAL EQUITY AND LIABILITIES	3,343	4,455	7,348	7,885	8,759	10,588

Source: Company, KRChoksey Research

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Supriya Lifescience Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
				Buy	More than 15%
17-Feb-23	220	278	BUY	Accumulate	5% – 15%
14-Nov-22	251	348	BUY	Hold	0 – 5%
18-Aug-22	365	410	ACCUMULATE	Reduce	-5% – 0
2-July-22	351	410	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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KRChoksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

ANALYST

Abhishek Agarwal research5@krchoksey.com, +91-22-6696 5540

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Phone: +91-22-6696 5555, Fax: +91-22-6691 9576

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