September 26, 2022

# Supriya Lifescience Ltd.: Ratings upgraded to [ICRA]A(Stable)/[ICRA]A1

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Short-term Fund-based – Post Shipment Credit (PSC)** | 80.00 | 30.00 | [ICRA]A1 upgraded from [ICRA]A2+ |
| **Long-term Fund based – Cash Credit (CC)** | (25.00)** | (30.00)** | [ICRA]A(Stable) upgraded from [ICRA]A-(Stable) |
| **Short-Term Fund based – Packing Credit (PC)** | (56.50)** | (30.00)** | [ICRA]A1 upgraded from [ICRA]A2+ |
| **Short-Term Non-Fund based – Letter of Credit (LC)** | 43.00 | 26.00 | [ICRA]A1 upgraded from [ICRA]A2+ |
| **Short-Term Non-Fund based – Letter of Credit (Inland)** | (20.00)^ | (20.00)^ | [ICRA]A1 upgraded from [ICRA]A2+ |
| **Short-Term Non-Fund based – Buyer's Credit** | (25.00)^ | (25.00)^ | [ICRA]A1 upgraded from [ICRA]A2+ |
| **Short-Term Non-Fund based – Bank Guarantee (BG)** | (1.05)^ | - | - |
| **Short-Term Non-Fund based – Bank Guarantee** | - | 1.00 | [ICRA]A1 upgraded from [ICRA]A2+ |
| **Total** | **123.00** | **57.00** | |

*Company has availed interchangeability of upto Rs. 19.00 crore from LC (sanction amount of Rs. 46 crore) to PC/PSC/CC (sanction amount of Rs. 11.00 crore) and of upto Rs. 1.00 crore from LC to BG*

**Instrument details are provided in Annexure-I*

*** Sublimit within PSC*

*^Sublimit within LC*

## Rationale

The ratings upgrade of Supriya Lifescience Ltd. (SLL) factors in the improvement in its credit profile, driven by healthy increase in the company's net worth through equity infusion of Rs. 200.0 crore (raised through an initial public offer; IPO) and strong revenue growth in FY2022, while maintaining healthy profit margins. SLL's revenue grew by 35.5% on a YoY basis to Rs. 530.0 crore in FY2022 from Rs. 391.2 crore in FY2021, driven by increase in sales volumes, realisation of key products and revenue contribution from key markets. The company had reported healthy YoY growth in Q1 FY2023 and the momentum is likely to sustain over the rest of the fiscal. Its strong market share and increasing level of backward integration for its key molecules and increased revenue contribution from the regulated markets, has enabled SLL to maintain healthy profit margins, resulting in increased internal accrual generation and a comfortable liquidity position. This, coupled with sizeable equity infusion, has resulted in reduced reliance on debt and strengthening of the company's liquidity position and debt protection metrics. Additionally, the ratings continue to factor in the extensive experience of SLL's promoters in the Active Pharmaceutical Ingredient (API) manufacturing business, the company's geographically diversified revenue base with presence across multiple countries.

The ratings are, however, constrained by SLL's moderate though growing scale of operations and its presence in mature therapies, exposing it to competition from its peers. The product concentration remains relatively higher with the top-three products contributing to 62% of the total sales in FY2022 (50% in FY2021). However, ICRA has taken note of the company's planned product launches and expected revenue contribution from the Contract Manufacturing Operations (CMO)/Contract Development and Manufacturing Operations (CDMO) over the near to medium term, which are expected to reduce the concentration to some extent. The working capital intensity has also remained relatively higher in the recent years due to high receivable and increased inventory levels, owing to the uncertainties related to the pandemic and recent geo-political events that have disrupted the supply chain. ICRA has also taken note of SLL's sizeable capital expenditure (capex) plans over the medium term towards enhancement of manufacturing capacities, new product additions and research & development (R&D) capabilities. Given that the entire capex is expected to be funded through internal accruals and funds raised through the IPO, it is not expected to impact the company's debt protection metrics. However timely commissioning of the same and satisfactory ramp-up of production, will be key in supporting SLL' growth momentum and return indicators.

The Stable outlook on the long-term rating reflects ICRA opinion that SLL will continue to benefit from its established market position for its key molecules and report healthy growth, while maintaining its credit profile aided by strong cash accruals and a comfortable liquidity position.

## Key rating drivers and their description

### Credit strengths

**Experienced promoters and backward integrated business model –** SLL has been manufacturing APIs since it was established in 1987. It is managed by its founder Dr. Satish Wagh, who has an experience of more than three decades in the API industry. Under his able guidance, SLL has diversified its product portfolio and gained a strong foothold in the domestic and international markets. SLL operates in a backward integrated model with 12 out of 38 of its products (contributing to 70% of its total sales in Q1 FY2023) being backward integrated, wherein, it starts the manufacturing process from Key Starting Materials (KSMs).

**Established presence with high market share[1] in key molecules –** SLL has established itself as the leading exporter of its key molecules with a 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 (United States Food and Drug Administration, European Directorate for the Quality of Medicines and Healthcare, World Health Organisation Good Manufacturing Practices, etc.) across the world, which enable SLL to command a price premium over its peers, leading to better margins.

**Geographically diversified revenues with presence across multiple countries –** Over the years, the company has widened its footprint to around 86 countries across the world, with exports accounting for ~76% of its total sales in FY2021 and FY2022. The sales are diversified across the regulated, semi-regulated and non-regulated markets of Asia (51% of total sales in FY2022 including domestic sales), Europe (30%), Latin America (12%), North America (3%), West Asia/North Africa (2%) and Africa (2%). While the major foreign markets that it presently caters to include Germany, China, Thailand, and Brazil, revenue contribution from North America and other regulated markets is expected to increase over the medium term.

**Healthy sales growth and high profit margins –** Over the last four years, SLL's revenue had increased at a CAGR of 25%. In FY2022, the revenue grew by 35.5% to Rs. 530.0 crore from Rs. 391.2 crore in FY2021. The sales growth was supported by increase in sales volumes across key geographies, coupled with increase in realisations of key products. In Q1 FY2023, SLL registered a revenue of Rs. 101.4 crore with a YoY growth of 31.7%. The sales were down by 44.1% QoQ from Rs. 181.3 crore in Q4 FY2022, owing to a high base effect and the cyclicality inherent in the demand of some products. Despite the same, the company is expected to continue to report healthy revenue growth in FY2023. SLL had maintained healthy operating margins of 40.4% in FY2022, owing to the established presence in its key products along with increasing presence in the regulated markets and a backward-integrated business model.

### Credit challenges

**Moderate scale of operations in an intensely competitive segment within pharmaceutical APIs –** Though SLL has shown strong revenue growth in the past few years, the scale of operations remains moderate with total revenue of Rs. 530.0 crore in FY2022. Further, the domestic industry is characterised with intense competition from numerous organised and unorganised players, leading to challenges in growth of sales via new product launches or penetration in the existing markets. SLL's ability to continue to grow at a healthy rate will drive in benefits related to economies of scale.

[1] Market share source: SLL investor presentation

**Presence limited to molecules in mature therapies with relatively higher product concentration –** SLL's presence is limited to molecules in relatively mature therapies, including Anaesthetics and Anti-Histamines which contributed to 62% of the total sales in FY2022. The key molecules manufactured are Ketamine Hydrochloride, Chlorpheniramine Maleate and Salbutamol Sulphate that contributed to 62% of its total sales, resulting in relatively higher product concentration. However, product diversification is expected to improve with the launch of new molecules and increased sales of existing molecules with two CEP grants in FY2022 and four more in the pipeline. SLL 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.

**Working capital-intensive nature of operations owing to high inventory and receivable levels –** The working capital intensity remained relatively higher with NWC/OI of 36% in FY2022 compared with 25% in FY2021 and 15% in FY2020. The increase in the working capital intensity can be attributed to higher inventory levels being maintained to mitigate supply-chain issues arising out of the pandemic and other geo-political events. Inventory days increased to 120 days as on March 31, 2022, from 96 days as on March 31, 2020. Further, the inventory levels have continued to remain relatively higher in the current fiscal, increasing the funding requirements to an extent. The average credit period offered to customers is around 65-75 days, which has increased slightly in the recent years on the back of widening the customer base. In terms of raw material sourcing, imports are backed by LCs or against advance payments, while the local suppliers extend a credit period of 45-60 days to SLL.

## Liquidity position: Strong

SLL's liquidity is strong, supported by a healthy cash flow generation, sizeable, unencumbered cash and cash equivalents and no long-term debt repayment obligations. As on August 31, 2022, the company had healthy cash and cash equivalents of ~Rs. 189 crore and a cushion in the form of undrawn working capital facilities of Rs. 16.7 crore. SLL is expected to incur capex of around Rs. 230.0 crore over the next two-three years. However, the same is expected to be completely funded through internal accruals and surplus liquidity available, without any reliance on external debt. Moreover, higher accrual generation with scaling up of operations, is expected to continue to support the availability of surplus liquidity for the company. A comfortable capital structure also enhances the company's financial flexibility.

## Rating sensitivities

**Positive factors –** SLL's ratings could be upgraded, if the company demonstrates healthy growth in scale of operations, while maintaining its profit margins and is able to efficiently manage its working capital requirements, thereby resulting in strong liquidity profile.

**Negative factors –** Pressure on SLL's ratings could arise, if there is any considerable pressure on revenue and profit margins, and increase in working capital intensity of operations, exerting pressure on the company's liquidity profile. Moreover, any increase in debt levels leading to a deterioration in capital structure and credit metrics, will also put pressure on the ratings. A specific credit metric for a downgrade is if Debt/OPBDITA is more than 1.8 times, on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Entities in the Pharmaceutical Industry |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | Standalone |

## About the company

Established in 1987 as a partnership concern under the name Supriya Chemical, before being reconstituted as a closely held public limited company in 2008 and renamed as Supriya Lifescience Ltd. It manufactures and exports APIs and has its manufacturing unit in Ratnagiri district of Maharashtra, with a current reactor capacity of 547 kl. The company has its own R&D unit 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. The company holds WHO GMP, EDQM, US FDA and many other certifications for manufacturing various bulk drugs. SLL's product portfolio includes around 38 products, and it has a global footprint across 86 countries. SLL was listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) in December 2021.

### Key financial indicators (audited)

| SLL - Standalone | FY2021 | FY2022 |
|---|---|---|
| **Operating income** | 391.2 | 530.0 |
| **PAT** | 123.6 | 151.8 |
| **OPBDIT/OI** | 44.3% | 40.4% |
| **PAT/OI** | 31.6% | 28.6% |
| **Total outside liabilities/Tangible net worth (times)** | 0.66 | 0.19 |
| **Total debt/OPBDIT (times)** | 0.42 | 0.13 |
| **Interest coverage (times)** | 42.44 | 50.97 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2023) | | | | Chronology of rating history for the past 3 years | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of August 31, 2022 (Rs. crore) | Date & rating in FY2023 | Date & rating in FY2022 | | | Date & rating in FY2021 | Date & rating in FY2020 |
| | | | | | Sep 26, 2022 | July 26, 2021 | June 8, 2021 | May 13, 2021 | - | Jan 15, 2020 |
| 1 | **Cash credit** | Long term | (30.00)* | -- | **[ICRA]A (Stable)** | [ICRA]A- (Stable) | [ICRA]BBB+ (Stable) | [ICRA]BBB+ (Stable) ISSUER NOT COOPERATING | - | [ICRA]BBB+ (Stable) |
| 2 | **Post shipping credit** | Short term | 30.00 | -- | **[ICRA]A1** | [ICRA]A2+ | [ICRA]A2 | [ICRA]A2 ISSUER NOT COOPERATING | - | [ICRA]A2 |
| 3 | **Packing credit** | Short term | (30.00)* | -- | **[ICRA]A1** | [ICRA]A2+ | [ICRA]A2 | [ICRA]A2 ISSUER NOT COOPERATING | - | [ICRA]A2 |
| 4 | **Letter of credit** | Short term | 26.00 | -- | **[ICRA]A1** | [ICRA]A2+ | [ICRA]A2 | [ICRA]A2 ISSUER NOT COOPERATING | - | [ICRA]A2 |
| 5 | **Letter of credit (inland)** | Short term | (20.00)^ | -- | **[ICRA]A1** | [ICRA]A2+ | [ICRA]A2 | [ICRA]A2 ISSUER NOT COOPERATING | - | [ICRA]A2 |
| 6 | **Buyer's credit** | Short term | (25.00)^ | -- | **[ICRA]A1** | [ICRA]A2+ | [ICRA]A2 | [ICRA]A2 ISSUER NOT COOPERATING | - | [ICRA]A2 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 7 | **Bank guarantee** | Short term | - | -- | **-** | [ICRA]A2+ | [ICRA]A2 | [ICRA]A2 ISSUER NOT COOPERATING | - | [ICRA]A2 |
| 8 | **Bank guarantee** | Short term | 1.0 | -- | **[ICRA]A1** | - | - | - | - | - |

*Company has availed interchangeability of upto Rs. 19.00 crore from LC (sanction amount of Rs. 46 crore) to PC/PSC/CC (sanction amount of Rs. 11.00 crore) and of upto Rs. 1.00 crore from LC to BG*

** Sublimit within PSC*

*^ Sublimit within LC*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term fund-based- Cash Credit | Simple |
| Short-term fund-based-Post Shipment Credit | Simple |
| Short-term fund-based-Packing Credit | Simple |
| Short-term non-fund based- Letter of Credit | Very Simple |
| Short-term non-fund based- Letter of Credit (Inland) | Very Simple |
| Short-term fund based-Buyers' Credit | Simple |
| Short- term Non-fund based- Bank Guarantee | Very Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

## Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | **Cash credit** | NA | NA | NA | (30.0)* | [ICRA]A(Stable) |
| **NA** | **PSC** | NA | NA | NA | 30.0 | [ICRA]A1 |
| **NA** | **Packing credit** | NA | NA | NA | (30.0)* | [ICRA]A1 |
| **NA** | **LC** | NA | NA | NA | 26.0 | [ICRA]A1 |
| **NA** | **LC (Inland)** | NA | NA | NA | (20.0)^ | [ICRA]A1 |
| **NA** | **Buyer's credit** | NA | NA | NA | (25.0)^ | [ICRA]A1 |
| **NA** | **BG** | NA | NA | NA | 1.0 | [ICRA]A1 |

*Source: Company*

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** Sublimit within PSC*

*^ Sublimit within LC*

## Annexure II: List of entities considered for consolidated analysis – Not Applicable

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody’s Investors Service is ICRA’s largest shareholder.

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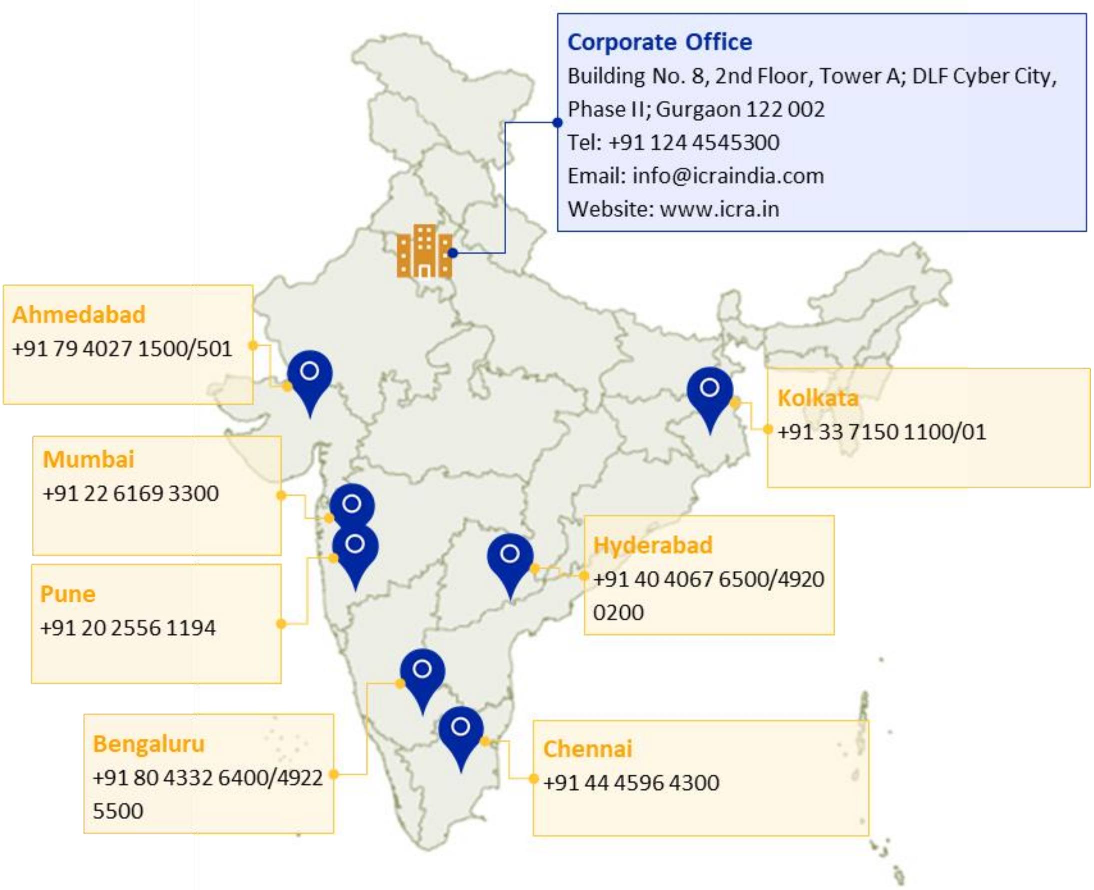




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