

November 10, 2023

Supriya Lifescience Ltd.: Ratings reaffirmed; rated amount enhanced

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)	30.00	43.00	[ICRA] A1; reaffirmed and assigned for the enhanced amount
Long-term fund-based – Cash Credit	(30.00)*	(30.00) *	[ICRA] A (Stable); reaffirmed
Short-term fund-based – Packing Credit	(30.00)*	(30.00)*	[ICRA] A1; reaffirmed
Short-term non-fund based – Letter of Credit(LC)^	26.00	26.00	[ICRA] A1; reaffirmed
Short-term non-fund based – Letter of Credit (Inland)	(20.00)**	(20.00)**	[ICRA] A1; reaffirmed
Short-term non-fund based – Buyers Credit	(25.00)**	(25.00)**	[ICRA] A1; reaffirmed
Short- term non-fund based – Bank Guarantee	1.00	1.00	[ICRA] A1; reaffirmed
Total	57.00	70.00	

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 rating reaffirmation of Supriya Lifescience Ltd. (SLL) factors in the extensive experience of its promoters of more than three decades in the Active Pharmaceutical Ingredient (API) industry, its diversified product portfolio, and its strong foothold in the domestic as well as international markets. SLL continues to maintain its position as the leading exporter of its key molecules, namely Chlorpheniramine Maleate, Ketamine Hydrochloride and Salbutamol Sulphate. Further, its sales are well diversified across the regulated, semi-regulated and non-regulated markets, which enhances geographic diversification of its revenues. The ratings also factor in SLL's strong market share and increasing level of backward integration for its key molecules, coupled with increased revenue contribution from regulated markets, which has supported SLL's profit margins.

The company reported some moderation in its revenue and operating margins in FY2023 on the back of muted demand and considerable price volatility in some of its key markets. However, some recovery in demand and realisations has driven the improvement in both revenue growth as well as operating margins in Q1 FY2024, which is expected to largely sustain over the near term. Moreover, ICRA notes SLL's tie up with a leading European company and the US-based Plasma Nutrition, for production and supply of APIs and protein powders, respectively, which are likely to support its revenues over the medium term and enhance product diversification over the medium term. SLL's financial profile remains comfortable on the back of healthy internal accruals, its net debt free status and strong liquidity position.

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. Its product concentration is also relatively higher than last fiscal, with its top three products generating 58% of its total sales in FY2023 (62% in FY2022). However, introduction of newer products and expected revenue contribution from the Contract Manufacturing Operations (CMO)/ Contract Development and Manufacturing Operations (CDMO) over the near to medium term are expected to reduce the concentration to some extent. Also, the company is exposed to foreign currency fluctuation risk. Nonetheless, the natural hedge that the company enjoys from its imports and exports mitigates this risk to some extent. Currently, SLL is undertaking capex at its Lote facility

(Maharashtra) and is also setting up a multi-product facility at Ambarnath (Maharashtra), whose commissioning will result in significant capacity enhancement. Also, commissioning of its research and development (R&D) facility at Ambarnath is expected to support its new product additions and enhance its R&D capabilities. Nonetheless, timely commissioning of the same and satisfactory ramp-up of production will be key in supporting SLL's growth momentum and return indicators.

The Stable outlook on the long-term rating reflects ICRA opinion that SLL's financial profile will continue to remain comfortable supported by healthy cash accruals, net debt free status and strong liquidity position.

Key rating drivers and their description

Credit strengths

Experienced promoters and backward integrated business model – Since its inception in 1987, SLL has been engaged in manufacturing APIs. It is managed by its founder, Dr. Satish Wagh, who has an experience of more than three decades in the API industry. Benefitting from the same, SLL has diversified its product portfolio and gained a strong foothold in the domestic and international markets. Further, SLL operates on a backward integrated business model with 12 out of its 38 products (driving 78% of its total sales in Q1 FY2024) being backward integrated, which continues to support its margin profile.

Established presence with high market share in key molecules – SLL has a diversified product portfolio of 38 APIs with Chlorpheniramine Maleate, Ketamine Hydrochloride and Salbutamol Sulphate being its key molecules. It has established itself as the leading¹ exporter of these key molecules. Thus, becoming the market leader 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 enables SLL to command a price premium over its peers, leading to better margins.

Geographically diversified revenues from multiple countries – SLL is geographically well-diversified with operations spanning 86 countries across the world. Also, its exports accounted for ~80% of its revenues in FY2023. Moreover, its sales are diversified across the regulated, semi-regulated and non-regulated markets of Asia (38% of total sales in FY2023, including domestic sales), Europe (28%), Latin America (12%), North America (8%) and Africa (2%). While its major export markets include Germany, China, Thailand and Brazil, revenue contribution from North America and other regulated markets is expected to increase over the medium term.

Comfortable financial profile – Over the years, SLL has seen healthy scale up in its operations. While the company's performance moderated slightly in FY2023, as one of its key markets was impacted, it has improved in Q1 FY2024. The company is expected to post healthy growth in FY2024, supported by improved demand, existing product sale in newer geographies and CMO/CDMO opportunities. In addition to the tie up with the US-based, Plasma Nutrition, the company has also tied up with a European company for production and supply of APIs, which is expected to support growth and lead to product diversification. Further, its leverage (TOL/TNW of 0.2 time in FY2023) and coverage indicators continue to remain comfortable due to absence of long-term debt coupled with growing net worth due to steady accretion to reserves. The company's financial profile is expected to remain comfortable, going forward, supported by healthy internal accrual generation, net debt free status and strong liquidity profile.

Credit challenges

Moderate scale of operations in an intensely competitive segment within pharmaceutical APIs – With an OI of Rs. 456.4 crore in FY2023, SLL's scale of operations remains moderate, relative to the size of the industry. Further, the domestic industry is characterised by intense competition from numerous organised and unorganised players, leading to challenges in growth of

¹ Market share source: SLL investor presentation

sales via new product launches or penetration into existing markets. Nonetheless, SLL's ability to continue to grow at a healthy rate will drive in benefits related to economies of scale.

Presence limited to molecules in mature therapies with higher product concentration – While SLL manufactures a basket of 38 APIs, its product concentration is relatively high with the top three molecules—Ketamine Hydrochloride, Chlorpheniramine Maleate and Salbutamol—accounting for ~57% of its total revenues in FY2023. Nonetheless, SLL continues its focus on new product development and is in the process of three abbreviated new drug application (ANDA) filings in the anaesthetic therapy segment. Product diversification is expected to improve with the launch of new molecules and increased sales of existing molecules along with CMO/CDMO opportunities. SLL's presence is limited to molecules in relatively mature therapies, including anaesthetics and antihistamines, which drove 59% of its total sales in FY2023.

Working capital-intensive nature of operations owing to high inventory and receivable levels –The working capital intensity for SLL had been relatively high, increasing further in FY2023 with NWC/OI of ~50%. The increase was largely attributed to higher inventory levels maintained at the year-end over the rest of the year, to mitigate supply chain issues arising out of post-pandemic and other geopolitical events. Funding requirements are likely to remain high over the near term, given the healthy anticipated revenue growth.

Liquidity position: Strong

SLL's liquidity profile continues to be strong supported by healthy internal accrual generation, free cash and bank balance of Rs. 154.5 crore (as on August 31, 2023) and no debt repayment liability. Further, the company also has working capital limits of Rs. 30 crore, whose utilisation has remained fairly low in the past eight months, resulting in a cushion of ~Rs. 30 crore (as of August 2023). While SLL is in the process of incurring sizeable capex towards enhancing capacities and production capabilities, the same is expected to be funded through IPO proceeds and internal accruals, without any reliance on external debt. The liquidity profile is expected to remain strong going forward as well, supported by high accrual generation with scaling up of operations and no debt repayment liability.

ESG and Social Risk

Environmental considerations – SLL is not directly connected with any major climate risks. However, it remains exposed to tightening environmental regulations regarding the breach of waste and pollution norms, which can lead to an increase in operating costs and new capacity instalment costs. This can also require capital investments to upgrade its effluent treatment infrastructure to reduce its carbon footprint and waste generation. SLL is investing in a large capacity effluent treatment plant and installing an online treated water monitoring system, centrally monitored by a Government authority. It is also increasing its share of renewable energy by investing in a solar energy project.

Social considerations – SLL faces high, industry-wide social risks related to product safety and its associated litigation risks, access to qualified personnel for R&D and process engineering, as well as for maintenance of high manufacturing compliance standards. Further, Government interventions related to price caps/controls also remain a social risk for entities in the pharmaceutical industry.

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 efficiently managing its working capital requirements, resulting in a 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 its 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 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 named, Supriya Chemical, it was reconstituted as a closely held public limited company in 2008 and renamed as Supriya Lifescience Ltd. It manufactures and exports APIs and has a manufacturing unit in Ratnagiri district of Maharashtra, with a current reactor capacity of 597 kl [per day]. The company has its own R&D unit at the manufacturing site, recognised by the Department of Scientific and Industrial Research (DSIR), Ministry of Science and Technology, Government of India. The company holds WHO GMP, EDQM, US FDA and many other certifications for manufacturing various bulk drugs. SLL's product portfolio includes around 38 API products that address remedies in therapeutic segments like antihistamine, analgesic, vitamin, anaesthetics and anti-asthmatics, among others. The company 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	FY2022	FY2023
Operating income	527.8	456.4
PAT	151.8	89.9
OPBDIT/OI	40.1%	27.2%
PAT/OI	28.8%	19.7%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.1	0.2
Interest coverage (times)	50.4	40.3

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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of Sept 30, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022			Date & rating in FY2021
				Nov 10, 2023	Sep 26, 2022	July 26, 2021	June 8, 2021	May 13, 2021	-
1 Cash credit	Long term	(30.00)*	--	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable) ISSUER NOT COOPERATING	-
2 Post shipping credit	Short term	43.00	--	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2	[ICRA]A2 ISSUER NOT COOPERATING	-
3 Packing credit	Short term	(30.00)*	--	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2	[ICRA]A2 ISSUER NOT COOPERATING	-
4 Letter of credit	Short term	26.00	--	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2	[ICRA]A2 ISSUER NOT COOPERATING	-
5 Letter of credit (inland)	Short term	(20.00)^	--	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2	[ICRA]A2 ISSUER NOT COOPERATING	-
6 Buyer's credit	Short term	(25.00)^	--	[ICRA]A1	[ICRA]A1	[ICRA]A2+	[ICRA]A2	[ICRA]A2 ISSUER NOT COOPERATING	-
7 Bank guarantee	Short term	-	--	-	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2 ISSUER NOT COOPERATING	-
8 Bank guarantee	Short term	1.0	--	[ICRA]A1	[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: [Click Here](#)

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	43.0	[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

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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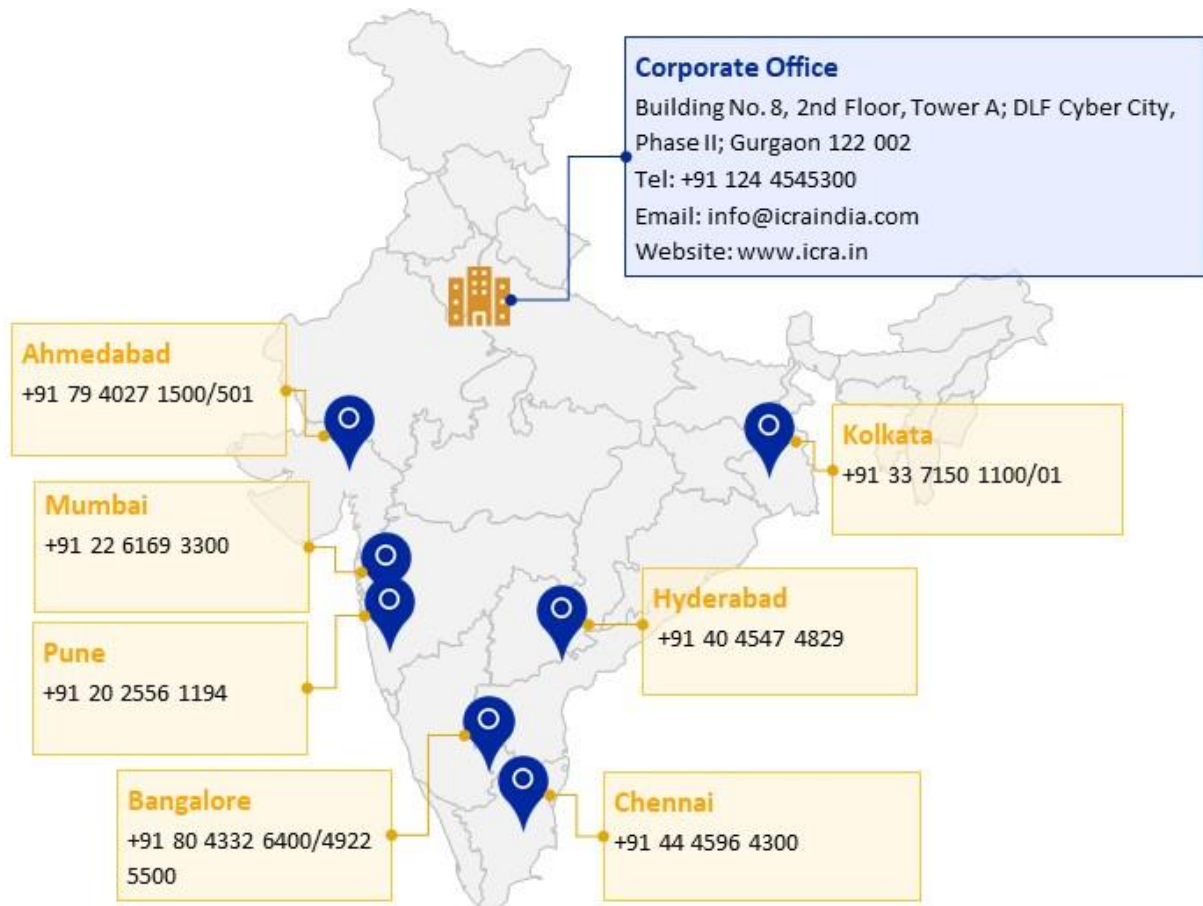
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