Supriya Lifescience Ltd — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	Supriya Lifescience maintains niche leadership as India's largest exporter of Chlorphenamine Maleate and Ketamine Hydrochloride, though 45% revenue concentration among the top 10 customers poses significant counterparty risk.	—
2	***Revenue contracted 13.04% YoY to 460.94 Cr, primarily impacted by a 29% slump in domestic sales and pandemic-related disruptions in the Chinese market.***	—
3	***EBITDA margins compressed significantly from 39.1% to 26.9% as negative operating leverage was exacerbated by a 49% spike in utility costs and rising employee expenses.***	—
4	***Net Profit (PAT) plummeted 40.7% to 89.86 Cr, reflecting the combined impact of top-line contraction and surging input costs.***	—
5	**The balance sheet remains exceptionally resilient with total debt of only □16.63 Cr, a Debt/Equity ratio below 0.1x, and a robust interest coverage ratio of 113.8x.**	—
6	**Cash collection efficiency improved despite the downturn, evidenced by trade receivables decreasing 26.5% YoY, significantly outpacing the rate of revenue decline.**	—
7	Management is aggressively doubling capacity by FY25, representing a high-conviction bet on future demand despite current operational headwinds.	—
8	***Earnings quality is under pressure as inventory ballooned 26% (with RM/FG up over 40%) against a 13% sales decline, signaling high risk of future write-downs or slow-moving stock.***	—
9	***Governance concerns persist as CMD remuneration reached 13.28 Cr (14.8% of PAT) amidst a profit crash, alongside a family-dominated board and simultaneous CEO/CFO turnover.***	—
10	***Short-term visibility is clouded by a 69% drop in customer advances and a doubling of machinery repair costs, suggesting a weakening order book and aging infrastructure.***	—
11	**Strategic pivot toward regulated markets is gaining traction, evidenced by a 144% YoY revenue surge in North America, successfully reducing geographic dependency on China.**	—
12	Investment Stance: Watch; monitor for the convergence of inventory and revenue growth, margin stabilization above 30%, and successful commissioning of new capacity blocks.	—

1. Business overview (In Bullet Points)

- **Business Segments & Model:** Niche, backward-integrated API manufacturer transitioning from a China-dependent model to a diversified, regulated-market-focused entity.
- **Revenue Drivers:** Heavily export-oriented (80% of revenue from 86 countries); key therapeutic drivers include anti-histamines, analgesics, vitamins, anesthetics, and anti-asthmatics.
- **Cost Drivers:** Core strength in backward integration (manufacturing own intermediates) to mitigate raw material volatility; however, margins are currently pressured by rising employee costs and a 48.9% surge in power and fuel expenses.
- **Industry Position:** Global leader in the export of Chlorphenamine Maleate and Ketamine Hydrochloride from India.

- **Expansion Plans:** Committed to doubling capacity by the beginning of FY 2024-25, including new manufacturing blocks and a new R&D lab at Lote Parshuram.
- **Acquisitions & New Segments:** Venturing into high-margin/high-volume segments like Anti-diabetic, Anti-anxiety, and Pain Management; diversifying into Nutraceuticals via CMO projects.
- **Geographical Presence:** Significant pivot toward North America (144% YoY growth) to offset previous over-dependence on the Chinese market.
- **Customer Concentration:** High risk with 45% of revenue derived from the top 10 customers, making the topline vulnerable to procurement shifts.

2. Management commentary & outlook

- Management adopts a cautiously aggressive tone, acknowledging a 13% revenue decline in FY23 while focusing on "Building for the Future."
- Strategic pivot is underway to correct the "strategic blind spot" of over-dependence on China by expanding into regulated markets like North America and Southeast Asia.
- Management has set a bold target to double the topline within three years, predicated on higher realizations from regulated markets.
- EBITDA margins saw a sharp dip in FY23; management expects backward integration and the shift to regulated markets to restore "optimal returns," though no specific numerical floor was provided.
- The company is shifting from a "niche specialist" to a "scale player" by moving into high-volume molecules to fast-track entry into regulated markets.
- Positive momentum is highlighted in CMO and CDMO endeavors to improve customer "stickiness" and reduce generic API volatility.
- Significant management churn occurred mid-year with the simultaneous appointment of a new CEO (Rajeev Kumar Jain) and CFO (Krishna Raghunathan).
- The Board remains heavily family-influenced, with the CMD and his two daughters serving as Whole-Time Directors.
- Management Tone: The narrative reflects a transitionary and recalibrating phase, moving from a founder-led niche exporter to a professionally managed global scale player. While transparent about past failures in the China market, management remains perhaps overly optimistic about doubling the topline in three years given current customer concentration and C-suite turnover (Transitionary & Recalibrating).

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	FY current	FY prior
Sales	—	—
Expenses	—	—
Operating Profit	—	—
OPM %	—	—
Other Income	—	—
Interest	—	—
Depreciation	—	—
Profit before tax	—	—
Tax %	—	—
Net Profit	—	—
EPS (□)	—	—
Dividend Payout %	—	—

Balance sheet (□Cr)

Line item	FY current	FY prior
Equity Capital	—	—
Reserves	—	—
Borrowings	—	—
Other Liabilities	—	—
Total Liabilities	—	—
Fixed Assets	—	—
CWIP	—	—
Investments	—	—
Other Assets	—	—
Total Assets	—	—

Cash flow statement (□Cr)

Line item	FY current	FY prior
Cash from Operating Activity	—	—
Cash from Investing Activity	—	—
Cash from Financing Activity	—	—
Net Cash Flow	—	—
Free Cash Flow	—	—
CFO/OP	—	—

Key ratios

Line item	FY current	FY prior
Debtor Days	—	—
Inventory Days	—	—
Days Payable	—	—
Cash Conversion Cycle	—	—
Working Capital Days	—	—
ROCE %	—	—

3.2 Financial analysis summary

- **Revenue** from operations witnessed a contraction of 13.04% to 460.94 Cr, with a sharp 29% decline in Domestic Sales (107.63 Cr) outweighing a more moderate 6.5% dip in Export Sales (398.92 Cr), which now accounts for 78.75% of the total top line.
- **Operating Profit** margins were severely compressed from 39.08% to 26.92% as Employee Benefit Expense rose 13.2% to 55.58 Cr despite the revenue drop, creating significant negative operating leverage.
- **Other Expenses** surged due to a 48.9% spike in Power & Fuel costs (20.95 Cr) and a 100% increase in Repairs to Machinery to 15.19 Cr, signaling energy inefficiencies and heavy maintenance requirements for aging infrastructure.
- **Net Profit** fell 40.7% to 89.86 Cr, further pressured by an increase in the effective tax rate to 27.58% driven by 2.26 Cr in non-deductible expenses, compared to only 0.29 Cr in the prior year.
- **Trade Receivables** decreased by 26.5% to 84.66 Cr, significantly faster than the revenue decline, which improved Debtor Days to 67 and suggests disciplined collections despite a 69% drop in Advance from Customers to 5.51 Cr.
- **Inventory** levels ballooned by 26% to 112.91 Cr while sales were falling, with Raw Materials and Finished Goods both increasing by over 40%, indicating a high risk of slow-moving stock and potential future write-downs.
- **Total Debt** remains low and entirely short-term at 16.63 Cr, and while Finance Cost decreased to 1.10 Cr, the company appears to be managing liquidity by stretching Trade Payables, which rose 31.16% to 64.23 Cr.
- **Other Income** was bolstered by a 4.53 Cr gain from foreign currency fluctuations, providing a minor cushion to the core operational decline, though the company remains sensitive to USD/INR appreciation due to a net long exposure of 5.96 Million USD in Trade Receivables.

- **Working Capital** efficiency is under pressure as the Cash Conversion Cycle remained flat at 86 days only because the increase in Inventory Days (from 62 to 89) was offset by stretching Days Payable and faster collections.
- **PAT** quality is slightly impacted by a reversal of 0.34 Cr in provisions for doubtful debts and a high CMD remuneration of 13.28 Cr, which represents an unusually high 14.8% of the total Net Profit.
- **Other Assets** and Other Liabilities analysis reveals a significant 12.32 Cr reduction in Advance from Customers, suggesting a weakening order book or loss of bargaining power, while Legal and Professional Fees surged to 4.02 Cr.
- The overall synthesis of the year is a period of difficult transition where sharp **Revenue** contraction and utility-driven margin erosion led to a 40.7% PAT decline, masked slightly by aggressive Inventory build-up and high promoter value extraction despite an otherwise under-leveraged Balance Sheet.

3.3 Contingent liabilities & commitments

- **Bank Guarantees:** ₹4.97 Cr outstanding.
- **Disputed Tax Demands:** ₹0.66 Cr pending before Tribunals; stagnant YoY.
- **Capital Commitments:** Not explicitly disclosed as a figure, though management has committed to doubling capacity by FY25.
- **Total Contingent Liabilities:** ₹5.62 Cr, representing only 1.2% of annual revenue, suggesting low off-balance sheet risk.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash; ₹48 Cr inventory build absorbs CFO conversion.	—	Note 24 & 25: Inventory ballooned while sales declined.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — channel stuffing risk; inventory rising 26% vs sales falling 13%.	—	Note 37(iii): Receivables decreased faster than revenue, but inventory surged.
3	Revenue timing	Revenue ↓ — weakening demand; customer advances dropped 69% signaling lower future orders.	—	Note 21: Sharp decline in liability for customer advances.
4	Revenue from related parties %	Neutral — minimal revenue impact; related party transactions focus on remuneration and rent.	—	Note 31: RPTs are primarily executive pay and small leases.
5	Inventory vs revenue growth	Profit ↓ — potential write-down risk; inventory grew 26% while revenue contracted 13%.	—	Note 24 & 25: Significant risk of slow-moving or obsolete stock.
6	Inventory valuation method change	Neutral — consistent valuation; no change in accounting policy for inventory reported.	—	Significant Accounting Policies: Standard FIFO/Weighted Average used.
7	Exceptional items in operating profit	Profit ↓ — margin erosion; power and repair costs doubled without exceptional classification.	—	Note 29: Spike in maintenance suggests aging assets or deferred costs.
8	Depreciation rate vs useful life policy	Neutral — standard depreciation; no significant change in useful life estimates noted.	—	Note 10: Property, Plant and Equipment depreciation policy.
9	Provision reversals boosting PAT	Profit ↑ — aggressive accounting; ₹0.34 Cr provision reversal during revenue contraction.	—	Note 37(iii): Reversal of doubtful debt provision despite macro headwinds.
10	Tax rate consistency + cash tax vs P&L tax	Profit ↓ — tax inefficiency; effective rate rose to 27.58% due to non-deductible expenses.	—	Note 39: Non-deductible expenses increased from ₹0.29 Cr to ₹2.26 Cr.
11	CWIP age and stalling projects	Neutral — low capital risk; no major stalled projects or aging CWIP highlighted.	—	Balance Sheet: CWIP levels appear stable relative to assets.
12	Deferred tax asset recognition adequacy	Neutral — conservative recognition; DTA/DTL movements align with timing differences.	—	Note 39: Tax reconciliation shows standard timing differences.
13	RPT quantum and trend	Profit ↓ — high value extraction; CMD remuneration is 14.8% of total PAT.	—	Note 31: Exceptionally high promoter pay relative to company scale.
14	Dividend paid vs FCF adequacy	Neutral — sustainable payouts; dividend paid to CMD ₹3.26 Cr within cash capacity.	—	Note 31: Direct cash returns to promoters via dividends.
15	Divergence in Growth	Profit ↓ — potential overvaluation of stock; Inventory grew 26% while Revenue declined 13%.	—	Note 24 & 25: Classic red flag for production not being absorbed by the market.
16	Actuarial Assumption Variance	Profit ↓ — higher than estimated employee costs; Experience variance led to ₹1.83 Cr loss.	—	Note 38: Actual salary hikes/exits were much higher than previous estimates.

4. Management & governance

A. Auditor Report & Key Audit Matters - **Audit opinion type:** Unqualified. - **Key Audit Matters (KAMs):** - **Credit Risk & Receivables:** Auditor focused on the collectability of □84.66 Cr in receivables. Management used an ECL model and determined no impairment was necessary despite the macro slowdown. - **Defined Benefit Obligations:** Valuation of □5.33 Cr in gratuity liabilities is sensitive to actuarial assumptions; a 1% decrease in the discount rate would increase the obligation by 2.92%. - **Internal Controls:** Auditor stated internal financial controls are adequate and operating effectively. - **Auditor Change:** M/s. Kakaria & Associates LLP re-appointed in 2022 for a second five-year term. - **Fees:** Legal and Professional Fees surged to □4.02 Cr; specific audit fee breakout not explicitly itemized.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | | ------- | -------------- | -------- | ---------------- | --------- | | Satish W. Wagh | CMD | Remuneration | 13.28 Cr | ***High extraction: 14.8% of PAT*** | | Satish Wagh Foundation | Promoter Controlled | CSR Contribution | 1.61 Cr | ***Routing social spend through promoter entity*** | | Asha W. Wagh | Relative of CMD | Salary | 0.74 Cr | Potential for non-arm's length pricing | | Vaibhav Chemicals | Promoter Entity | Rent Paid | 0.10 Cr | Immaterial | | Satish W. Wagh | CMD | Dividend Paid | 3.26 Cr | Direct cash return to promoter |

- **% of Revenue:** 0.34% (calc.)
- **% of PAT:** 17.51% (calc. for all RPTs) → **Flag: High extraction via remuneration.**
- **CSR Routing:** CSR spending is routed through the "Satish Wagh Foundation," where the CMD is a trustee.

C. Shareholding | Category | FY current | FY prior | | :-- | --: | --: | | Promoter | 68.24% | 68.24% | | FII | 4.63% | 6.12% | | DII | 6.94% | 8.54% | | Public | 20.19% | 17.10% |

- **Pledged Shares:** 0.00%

D. Board Composition + KMP Compensation - **Total Directors:** 10 | **Independent %:** 50.00% | **Women Directors:** 4. - **Family Concentration:** Board is heavily dominated by the Wagh family (CMD, Spouse, and two Daughters). - **Compensation vs Performance:** Total KMP compensation for the Wagh family increased (~4.5%) while consolidated EBITDA crashed by 39.8%. - **CMD Remuneration:** □13.28 Cr (10.29% of EBITDA; 14.8% of PAT).

F. Capital Allocation & Capex | Action | FY current (□Cr) | FY prior (□Cr) | Signal | | :--- | ---: | ---: | :--- | | Dividends | 4.83 Cr | 15.18 Cr | — | | Working Capital Investment | 16.63 Cr | 21.30 Cr | — | | Inventory Build-up | 112.91 Cr | 89.52 Cr | — |

- **CAPEX Analytical Notes:**
  - Capex focused on emission absorption systems and automation for two new units.
  - **Ballooning of Raw Material and Finished Goods inventory by over 40%** is a major forensic concern, signaling potential overproduction.
  - Capex was 99.08% of the R&D/Capex mix, yet revenue declined 13%, suggesting a temporary mismatch between expansion and demand.

H. Risks - ***Revenue Concentration:*** 13% drop due to China lockdowns (High). - ***Customer Concentration:*** Top 10 customers account for 45% of revenue (Medium). - ***Inventory Risk:*** 40%+ jump in RM and FG inventory; potential write-downs (High). - ***Regulatory Risk:*** USFDA/EDQM approvals required for 80% of revenue (High). - ***Forex Risk:*** Net long exposure to USD (Medium). - ***Input Cost Risk:*** 48.9% surge in Power & Fuel costs (Medium). - ***Asset Maintenance:*** 100% spike in machinery repairs suggests aging infrastructure (Medium).

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	3	→	80% Exports; 45% Top 10 Cust.	Niche leadership in specific APIs but high customer and geographic concentration.
Financial health	4	↓	D/E < 0.1x; Int. Coverage 113x	Extremely low debt and high coverage, though margins and PAT are declining.
Earnings quality	2	↓	Inventory +26% vs Sales -13%	Significant inventory build-up and provision reversals during a downturn.
Management & governance	2	↓	CMD Pay 14.8% of PAT; Family Board	High promoter extraction and family dominance outweigh clean audit.
Capital allocation & earnings visibility	3	↓	Capex doubling vs 69% drop in Adv.	Aggressive capacity expansion despite weakening short-term order book.

Business positives (for this company this year) * **Strong Solvency:** Total debt remains very low at ₹**16.63 Cr** with an interest coverage ratio of 113.8x. * **Geographic Diversification:** Successfully grew North American revenue by **144% YoY**, reducing China dependency. * **Market Leadership:** Maintained position as the largest global exporter of Chlorphenamine Maleate and Ketamine Hydrochloride from India. * **Receivables Management: Trade Receivables** decreased by 26.5%, significantly faster than the revenue decline, improving cash collection efficiency.

Business negatives / concerns (for this company this year) * **Margin Compression:** EBITDA margins fell from **39.1% to 26.9%** due to surging utility and employee costs. * **Inventory Bloat: Raw Material and Finished Goods inventory** ballooned by over 40% each while sales fell 13%. * **High Promoter Extraction:** CMD remuneration of ₹**13.28 Cr** consumes 14.8% of PAT, which is exceptionally high for this scale. * **Weakening Order Book: Advance from Customers** dropped by 69% (from ₹17.83 Cr to ₹5.51 Cr), signaling lower near-term demand. * **Management Churn:** Simultaneous change of both **CEO and CFO** during a period of financial contraction.

Overall scorecard summary Supriya Lifescience is currently in a high-risk transition phase, characterized by strong balance sheet solvency but deteriorating operational efficiency. While the company is debt-free and expanding capacity, the massive divergence between inventory growth (+26%) and revenue decline (-13%) raises serious concerns about earnings quality and potential future write-downs. Governance is a significant overhang, with exceptionally high promoter remuneration and a family-dominated board. The business is on a **stable to deteriorating** trajectory until the new capacity and regulated market pivot translate into actual cash flow and margin recovery.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Final line: "Total: 9/10 — Governance Rating: 3" (Rating capped due to high KMP extraction)

Part c: investor verdict

Thesis: A niche API leader with a clean balance sheet undergoing a risky geographic pivot and massive capacity expansion amidst governance-related value extraction.

Overall stance: Watch

Rationale: While the debt-free status is comforting, the inventory bloat and high promoter pay require evidence of turnaround before committing capital. Re-evaluate when: Inventory Days drop below 70 and EBITDA margins stabilize above 30%. BULL CASE: Successful commissioning of new blocks leads to 25%+ revenue growth in North America, restoring margins to 35%. BEAR CASE: Inventory write-down of □20 Cr+ combined with continued pricing pressure in the domestic market leads to PAT falling below □70 Cr. Key monitorable: Inventory Growth vs Revenue Growth: Current +26% vs -13% → Watch for convergence.