Supriya Lifescience Ltd — Aug 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat **One-line:** Strong operating leverage and geographic mix shift towards regulated markets (Europe) drove a significant margin beat, while the doubling of capacity in Q2 provides visibility for high-teens growth targets.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	Revenue +22% YoY; EBITDA margins 39% vs 34% YoY.	□
Earnings Quality	High (Core driven)	Margin expansion driven by backward integration and mix.	□
Guidance Confidence	Strong	Capacity doubling by Sept-24 supports 20% growth target.	□
Management Credibility	Strong	Successful execution of regulated market shift (Europe 51%).	□
Business Quality Signal	Improving	Sustained gross margins (70%) and improving WC cycle.	□
Key Q&A Exchange	Q#14 + Margin Sustainability	Management expects 30%+ margins to be the "new floor."	□
The Street's Primary Anxiety	Sustainability of 39% EBITDA margins.	Management guided for normalization to ~30% + in H2.	□
Capital Cycle Stage	Investment / Harvesting	Doubling capacity to 1,020 KL; Ambernath under validation.	□
Margin / Return Ratio Trajectory	Improving	EBITDA margins expanded 500 bps YoY.	□
Pricing Power	Expanding	Shift to regulated markets allows for premium pricing.	□
FCF Conversion & Quality	Strong	Working capital days reduced from 215 to 168.	□
Competitive Moat Signals	Widening	69% revenue from backward integrated products.	□
Balance Sheet Strength	Strong	Net Cash; D/E ratio at a negligible 0.01x.	□
Working Capital Efficiency	Improving	DIO reduced significantly from 223 to 167 days.	□
Mgmt Guidance Track Record	Reliable	Consistent delivery on market penetration strategies.	□
Key Vulnerability / Red Flag	Customer Concentration	Top 10 customers still contribute 49% of revenue.	□
Management Tone	Confident / Aggressive	Focused on "fighting China" via GMP-compliant manufacturing.	□

Key Takeaways:

Positives: * **Geographic Pivot:** Successful shift to regulated markets (Europe 51% of revenue vs 43% in Q4FY24) has structurally elevated the margin profile. * **Operational Efficiency:** Drastic reduction in inventory

days (from 223 to 167) highlights better supply chain management and faster conversion. * **Capacity Catalyst:** Total reactor capacity will rise from ~600 KL to 1,020 KL by Sept 2024, providing the physical infrastructure for the guided 20% revenue CAGR. * **CDMO Traction:** DSM contract and two advanced-stage opportunities indicate the transition from pure API player to a hybrid CDMO model is gaining momentum.

Negatives: * **North America Weakness:** Sharp degrowth in North American revenues this quarter, though management expects recovery via new registrations. * **Concentration Risk:** High reliance on the top 10 customers (49%) remains a structural vulnerability if any key relationship sours. * **Margin Normalization:** The current 39% EBITDA margin is likely a peak; H2 launches into semi-regulated markets for volume will likely pull margins back toward the 30-32% range.

Forward-looking Watchpoint: The commercialization of the Ambernath FDF (Finished Dosage Form) facility in Q2FY25 and the subsequent triggering of USFDA/EU inspections will be the next major re-rating trigger.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Total Revenue	₹161.0 Cr	↑ 22.0%	↑ 1.4%	↑	Growth driven by regulated market penetration (Europe).
Gross Margin (%)	70.0%	↑ 900 bps	↑ 900 bps	↑	Benefit of backward integration (69% of revenue integrated).
EBITDA	₹62.5 Cr	↑ 40.4%	↑ 29.1%	↑	Driven by higher realization in Europe and cost optimization.
EBITDA Margin %	38.8%	↑ 480 bps	↑ 850 bps	↑	Mix-led expansion; guides for 30%+ sustainable floor.
PAT	₹45.0 Cr	↑ 57.9%	↑ 53.6%	↑	Strong operating leverage flowing to bottom line.
Exports (%)	84.0%	↑ 400 bps	↑ 500 bps	↑	Focus remains on international regulated markets.
Regulated Market %	54.0%	↑ 900 bps	↑ 1100 bps	↑	Strategy to shift from semi-regulated to regulated paying off.
Net Debt / (Cash)	(Net Cash)	→	→	→	D/E at 0.01x; no utilization of working capital limits.
Working Capital Days	168 Days	↓ 21.8%	↓ 21.8%	↑	Driven primarily by inventory reduction from 223 to 167 days.

2B. SEGMENT BREAKDOWN

Note: Company does not provide granular revenue by product/therapy in quarterly filings, but highlights geographic shifts.

Segment	Revenue (₹ Cr)	YoY Growth	Mix %	Trend	vs Company Avg	Key Development
Europe	₹82.1 Cr*	Strong ↑	51%	↑	Above Avg	Major growth driver; share up from 43% in Q4FY24.
India	₹25.8 Cr*	→	16%	→	Below Avg	Domestic market remains a secondary priority vs exports.
Others	₹53.1 Cr*	↓	33%	↓	Below Avg	Includes North America, which saw sharp degrowth this quarter.

**Estimated based on total revenue and % mix provided in concall/PPT.*

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	20% Growth in FY25	Needs ~□175 Cr/qtr for remaining 9 months.	Consistent	Low
Guidance	Margins	30% - 32% (Normalized)	Currently at 39%; significant cushion.	Beat guidance	Low
Guidance	Volume / Capacity	1,020 KL by Sept 2024	From ~600 KL; Module E operationalization.	On Track	Moderate
Guidance	CDMO Mix	20% of Revenue in 3-4 yrs	Zero in Q1; needs ~□140 Cr annual CDMO rev.	New Strategy	High
Strategy	Competitive Positioning	"Hit China" (Alternative)	Positioning as USFDA/GMP alternative to China.	Improving	Moderate
Strategy	New Products	2 major launches in H2	Anesthetics/Anti-diabetic focus.	On Track	Low
Capex	Ambernath Facility	□130 Cr Total Outlay	□75-78 Cr allocated for FY25.	On Track	Low
Balance	Working Capital	~150 Inventory Days	Currently at 167 days.	Delivered (↓)	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdic
1	4.0	Parth Agrawal / Western Research	Margins	Financials	Will new API launches compress the currently high margins?	Management acknowledged that while products are in the non-regulated stage, margins may compress, but will normalize once they reach regulated markets. Forward margins will depend on the speed of regulatory filings for new molecules.	None	4.0	Specif timelin given
2	3.5	Aditya / MSA Capital	Gross Margins	Financials	Is the margin expansion driven by product mix or lower costs?	Expansion is primarily driven by the strategy to focus on regulated markets where pricing is higher and consistent. This validates the geographic pivot as the primary driver of profitability.	None	4.0	Directi with eviden
3	4.5	Aditya / MSA Capital	Geography	Business Overview	Why has the North American revenue witnessed sharp degrowth?	Management expects this to reverse as new product registrations and USFDA approvals for new molecules kick in. North America remains a core growth pillar for the mid-term despite short-term volatility.	None	3.0	Vague consis
4	4.0	Aditya / MSA Capital	CDMO	Business Overview	When will CMO/CDMO revenues start contributing?	Revenue will start kicking in from Q3FY25, with major scale-up expected from the next financial year. This delays the CDMO	None	4.0	Specif timelin given

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdic
						investment thesis impact to FY26.			
5	3.5	Jay Shah / JS Family Office	CDMO	Strategy	What do clients look for when onboarding Supriya for CDMO?	Quality, EHS reputation, and backward integration capabilities are the primary qualifiers for MNC clients. This reinforces the company's competitive advantage in supply chain security.	None	4.0	Directi with eviden
6	3.0	Jay Shah / JS Family Office	Capacity	Capex	Is the Ambernath facility fungible across chemistries?	The facility has multiple lines for injectables, tablets, and capsules, allowing multi-product manufacturing. Fungibility reduces the risk of idle capacity if a specific product fails.	None	4.0	Specif and quanti
7	4.5	Jay Shah / SKV Securities	Concentration	Business Overview	What is the revenue contribution of the top 3 APIs?	Management refused to provide product-specific revenue or therapy-level details. This limits visibility into the concentration risk of the core portfolio.	Product-level revenue breakdown	2.0	Evasiv on specifi
8	3.5	Jay Shah / SKV Securities	CDMO	Strategy	What is the long-term revenue target for CDMO?	CDMO is expected to reach 20% of total revenue in the next 3 to 4 years. This quantifies the management's diversification goal.	None	3.0	Directi
9	3.0	Jagvir Singh /	Market Trends	Business Overview	Is the Chinese market showing any	Management is focusing on the "Make in India"	None	3.0	Vague

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		Shade Capital			signs of an uptrend?	alternative to China, citing that customers prefer USFDA/GMP plants over non-compliant Chinese sources. This positions them as a beneficiary of "China+1."			
10	3.0	Jagvir Singh / Shade Capital	Seasonality	Financials	Will the H2-heavy revenue trend continue?	Management confirmed that the trend of a stronger second half is likely to persist. Investors should expect sequential revenue acceleration in Q3 and Q4.	None	4.0	Directi with eviden
11	4.0	Nirali Shah / Ashika Stock Broking	CDMO	Business Overview	What is the status of the DSM contract and other advanced intermediates?	DSM is in the registration phase for Europe/Japan; one new contract is expected to be announced by next quarter. This provides a near-term catalyst for the CDMO segment.	None	4.0	Specif timelin given
12	3.5	Nirali Shah / Ashika Stock Broking	Regulatory	Management Commentary	Any update on Health Canada or USFDA audits?	Last audits were cleared; USFDA and NMPA China inspections are expected in the latter half of the year. Regulatory compliance remains a baseline strength for the company.	None	4.0	Specif and verifia
13	4.0	Ashish / InvesQ PMS	Working Capital	Financials	Is the improvement in inventory days sustainable?	Improvement is a result of diligent control and advance payments for narcotics; year-end numbers will be the better benchmark. This	None	3.0	Vague consis

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						suggests Q1 efficiency may have some seasonality but the target remains ~150 days.			
14	5.0	Ashish / InvesQ PMS	Margins	Financials	Is the 500 bps YoY EBITDA improvement sustainable?	Management guided for "30% plus" margins for the full year, despite potential normalization from new launches. This effectively raises the bottom-floor expectations for the company's profitability.	None	4.0	Directi with eviden
15	4.5	Tushar / MK Ventures	Product Launch	Strategy	What are the therapeutic focuses for the H2 launches?	Focus will be on Anesthetics, Anti-diabetics, and Anti-anxiety, targeting large volume markets currently single-sourced from China. This is the primary driver for FY26 growth.	None	4.0	Specif and quanti
16	4.0	Tushar / MK Ventures	CDMO	Strategy	Progress on the new global player contract in anesthesia?	Currently in pilot stage/validation; smaller volumes expected in Q3FY25. This contract is a key test of the company's execution in high-barrier anesthesia molecules.	None	4.0	Specif timelin given
17	3.0	Tushar / MK Ventures	New Business	Business Overview	Any update on the whey protein contract?	FSSAI license for manufacturing and exports was received 2 days ago; discussions with customers have started. This opens a new "nutraceutical" revenue stream, though size is	None	5.0	Specif and verifia

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						currently undefined.			
18	4.0	Tushar / MK Ventures	Guidance	Management Commentary	Is there upside to the 20% revenue guidance?	20% is viewed as "conservative" given the new launches and CDMO traction. This suggests a potential "beat and raise" scenario later in the year.	None	3.0	Directi
19	4.0	Rehman Khan / Old Bridge	Capex	Capex	What is the operational status and capex for Ambernath?	Total outlay of □130 Cr; validation is underway with production expected to start partially within 60 days. This confirms the asset-building phase is nearly complete.	None	4.0	Specif and quanti
20	4.0	Aditya / MSA Capital	Regulatory	Governance	When will the Ambernath facility be USFDA/EU inspected?	Local certifications will be initiated post-commercialization; USFDA/EU inspection triggers expected in early FY26. This sets the timeline for regulated market entry from the new site.	None	4.0	Specif timelin given
21	3.5	Aditya / MSA Capital	Mix	Financials	What was the export and regulated market mix this quarter?	Exports were 84% of revenue; regulated markets were 54% (up from 45% YoY). This confirms the structural shift toward higher-value geographies.	None	5.0	Specif and quanti
22	4.5	Sahil / M&S Associates	Market Size	Business Overview	What is the market size of the top 3 APIs?	Management declined to provide specific values for the top 3 APIs. This	Market size/value for top APIs	1.0	Evasiv

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						remains a persistent black box for analysts trying to model core product terminal value.			
23	3.5	Sahil / M&S Associates	CDMO	Business Overview	How large are the ongoing CMO/CDMO contracts?	DSM is scaling; two more contracts are at final stages. Management is building a pipeline of mid-sized contracts rather than one mega-deal.	None	3.0	Vague
24	3.5	Sahil / M&S Associates	Product Launch	Strategy	How many new molecules are in the approval process?	3-4 products in anesthetics, anti-diabetics, and anti-anxiety are being targeted for H2. This confirms the therapeutic diversification strategy.	None	4.0	Directi with eviden
25	2.5	Hardik	New Product	Business Overview	What is the update on the oral cancer kit?	Patents applied for in multiple countries; commercialization expected in ~2 years. This is a long-term "moonshot" rather than a near-term revenue driver.	None	3.0	Directi
26	3.5	Shubham / Purnartha	Geography	Business Overview	What is the opportunity in the Brazilian market?	New government notification requires GMP certificates by Dec 2024, which will force source changes from non-GMP China to players like Supriya. This is a significant regulatory tailwind for their Latin American business.	None	4.0	Specif and verifiab

PATTERN FLAGS & SENTIMENT

Analysts focused heavily on the **sustainability of the 39% EBITDA margins**, repeatedly probing whether this was a one-off due to product mix or a structural change. Management's response—guiding for a "normalization" to 30%+—was seen as prudent, though it left some analysts skeptical about the exact level of compression once larger volume products launch. Another recurring theme was **China competition**; management's posture was highly confident, framing themselves as a "safe harbor" with USFDA/GMP credentials, which seemed to satisfy analysts concerned about the ongoing global "China+1" trend.

Analyst Sentiment Verdict: Analysts appeared generally convinced by the growth narrative, particularly the doubling of capacity and the progress in the European market. The most friction occurred around management's refusal to break down revenue by specific APIs (Top 3), which remains a key transparency overhang. Management's credibility improved this quarter as they delivered on the margin expansion and working capital improvement promises made in prior periods. The greatest unresolved risk is the **timing and scale of CDMO revenues**, which have been discussed for several quarters but are yet to meaningfully impact the P&L.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (PPT)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
EBITDA Margins	Historically ~28-30%	Guided for "30% plus" floor	Upward revision of sustainable margin floor.	Positive: Structural re-rating potential.
CDMO Revenue	PPT focuses on "Opportunities"	Start in Q3FY25 (Validation)	CDMO is still 1-2 quarters away from material contribution.	Timing risk: Thesis depends on successful CDMO ramp.
Capacity	~600 KL	Doubling to 1,020 KL by Sept-24	Accelerated timeline for Module E.	Positive: Removes bottleneck for H2 launches.

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5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.