

Retail Equity Research (South India Focus)

Suven Life Sciences Ltd

Pharmaceuticals

BSE CODE : 530239 NSE CODE: SUVEN
BLOOMBERG CODE: SVLS:IN SENSEX : 40,652

Buy

12M Investment Period Rating as per Small Cap
CMP Rs. 305 TARGET Rs. 360 RETURN 18% ↑
(Closing: 20-11-19)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Higher Commercial CRAMS drove the margins...

Suven Life Sciences is a pharmaceutical research expert that is in the business of Contract Research And Manufacturing Services (CRAMS).

- Q2FY20 revenue grew by ~200% YoY on account of higher sales in CRAMS (+186%) and specialty chemicals (currently 2 products)
- EBITDA & PAT registered a +300% growth each YoY on account of increase in high margin commercial CRAMS sales, lower employee cost & other expenses as a percentage of sales.
- Clinical trial data on molecule SUVN-502 which got delayed is expected to be available in 3 weeks time and will be presented in CTAD 2019 - Alzheimer Congress at San Diego, USA .
- We increase our EBITDA margin to ~38% for FY20-21E to factor the increase in high margin commercial CRAMS sales.
- We also improve the PAT estimates by 17%/13% for FY20/21 and retain the 'Buy' rating on a multiple of 20x on FY21E EPS with a revised TP of Rs 360.

CRAMS to continue as the major revenue source...

CRAMS share rose to 75% of total revenue in Q2FY20 compared to 45% in Q1FY20 partly on account of early realisation of sales. Speciality segment (currently consists of 2 products and 2 more under development) witnessed a 800% YoY growth while contract technical also witnessed a 22% growth. In CRAMS, they did around Rs100cr in commercial brands (zero in Q2FY19) and Rs 106cr (Rs72cr in FY19) in direct Crams. However the management has indicated that Q3& Q4 may not see a similar increase. It has been guided that commercial crams will be in the range of Rs 180-190cr for FY20. Currently they have files 8 ANDA's filed (2 own, 5 for others).

EBITDA & PAT improved by higher commercial CRAMS business ...

EBITDA and PAT grew by 352%& 301% respectively in Q2FY20 on a YoY basis while EBITDA margin improved by 1300bps which is primarily attributed to higher numbers from commercial CRAMS and corresponding decrease in employee cost (-950bpsYoY) and other expenses (-3030bpsYoY). CAPEX guidance is around Rs320cr for next 2 years which is primarily for the replacement of old facilities and of which ~Rs160cr has been already spent. We expect this trend to continue and increase both EBITDA and PAT estimates by ~17% and ~13% each for FY20/21 respectively. During the period Suven secured 13 product patents covering regions/countries - Australia, Europe, Canada, India, Japan, South Korea, South Africa, Sri Lanka and USA.

Clinical trial data on molecule SUVN-502 to come in 3 weeks time ...

Suven completed Phase 2A POC (Proof of concept) study for SUVN-502, conducted in USA indicated for moderate Alzheimer's. The out-come of the study is expected within 3 weeks and scheduled to be presented during CTAD 2019 - Alzheimer Congress at San Diego, USA held on December 4-7, 2019. If successful, the molecule can fetch ~Rs+400cr when out licensed. On SUVN-G3031 they have enrolled first patient in Phase 2 study conducted in USA for the treatment of Narcolepsy. R&D for Q2FY20 stands at Rs15cr (~Rs12cr in Q1FY19). They have a CRAMS pipeline of 117 projects with 78 molecules in Phase 1 (82 in Q1FY20), 34 (in Phase 2 32 in Q1FY20), 1 in Phase 3, and 4 in commercial.

Valuations...

Suven is currently trading at a 1 year forward P/E of 17x. Considering the higher sales momentum and improving operational efficiency we foresee EBITDA margin to remain higher and forecast PAT to cross Rs 200cr in FY20. We retain the Buy rating on a multiple of 20x with a revised target price of Rs 360.

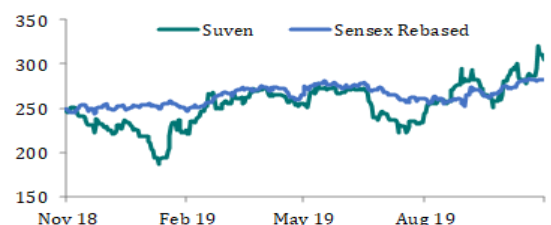
Company Data

Market Cap (cr)	Rs.3,869
Enterprise Value (cr)	Rs.3,883
Outstanding Shares (cr)	12.7
Free Float	40%
Dividend Yield	0.5%
52 week high	Rs. 335
52 week low	Rs. 183
6m average volume (cr)	0.02
Beta	1.03
Face value	Rs1

Shareholding (%)	Q4FY19	Q1FY20	Q2FY20
Promoters	60.0	60.0	60.0
FII's	6.54	5.91	5.10
MFs/Insti	1.66	1.92	2.32
Public	31.8	32.2	32.6
Total	100.0	100.0	100.0
Promoters pledge	0.0	0.0	0.0

Price Performance	3 month	6 month	1 Year
Absolute Return	24.0%	21.5%	22.9%
Absolute Sensex	7.9%	3.0%	13.6%
Relative Return*	16.1%	18.5%	9.2%

*over or under performance to benchmark index



Standalone(cr)	FY19A	FY20E	FY21E
Sales	664	814	930
Growth (%)	6.1	22.6	14
EBITDA	223	313	348
EBITDA Margin(%)	33.7	38.4	37.4
PAT Adj.	149	203	229
Growth (%)	(5.3)	36	13
Adj.EPS	11.7	16.0	18.0
Growth (%)	(5.3)	36	13
P/E	23.2	19.0	17.0
P/B	3.5	3.3	2.8
EV/EBITDA	17.4	12.5	11.0
ROE (%)	16.1	18.8	18.1
D/E	0.03	0.02	0.00

Dilish K Daniel
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

(Rs cr)	Q2FY20	Q2FY19	YoY Growth %	Q1FY19	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Sales	274.3	89.5	206	199.0	38	473.3	274.4	72
EBITDA	110.5	24.4	352	90.0	23	200.5	82.7	143
EBITDA margins	40%	27%	1300bps	45%	(500bps)	42%	30%	(200bps)
Depreciation	5.6	5.6	1	5.6	1	11.1	11.1	1
EBIT	104.9	18.9	456	84.5	24	189.4	71.6	164
Interest	1.9	0.6	214	1.3	41	3.2	1.7	91
Other Income	5.6	6.6	(15)	3.0	86	8.6	14.7	(42)
Exceptional Items	0.0	0.0	-	0.0	-	0.0	0.0	
PBT	108.6	24.9	337	86.2	26	194.8	84.7	130
Tax	36.3	6.8	431	29.0	25	65.3	27.8	135
Share of profit from Associate	0.0	0.0	-	0.0	-	0.0	0.0	
Reported PAT	72.3	18.0	301	57.2	26	129.5	56.9	128
Adjustments	0.0	0.0	-	0.0	-	0.0	0.0	
Adj PAT	72.3	18.0	301	57.2	26	129.5	56.9	128
No. of Shares	12.7	12.7	-	12.7	-	12.7	12.7	0
EPS (Rs)	5.68	1.42	301	4.50	26	32.7	13.9	135

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	713	826	814	930	14.1%	12.57%
EBITDA	268	307	313	348	16.6%	13.21%
Margins (%)	37.6	37.2	38.4	37.4	80bps	20bps
Adj. PAT	175	203	203	229	16.5%	12.93%
EPS	13.7	16.0	16.0	18.0	16.5%	12.93%

Standalone segment revenues

(Rs cr)	FY17	FY18	FY19	FY20E	FY21E
*CRAMS	273	416	391	489	552
%	4%	52%	-6%	25%	13%
Speciality Chemicals	224	154	216	255	301
%	1%	-31%	40%	18%	18%
Contract technical services	42	44	50	55	62
%	198%	6%	14%	10%	12%
Total	539	614	656	799	915

*CRAMS is subdivided into Core and Commerical.

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Sales	544	625	664	814	930
% change	9.0	14.8	6.1	22.6	14.3
EBITDA	166	232	223	313	348
% change	27.1	40.2	-3.8	39.9	11.3
Depreciation	21	21	22	24	28
EBIT	144	211	201	288	320
Interest	6	5	4	6	7
Other Income	21	23	24	24	31
PBT	160	230	221	306	345
% change	26.4	43.8	-3.7	38.1	12.7
Tax	36	72	72	102	115
Tax Rate (%)	22.5	31.3	32.5	33.5	33.5
Reported PAT	124	158	149	203	229
Adj.*	0	0	0	0	0
Adj. PAT	124	158	149	203	229
% change	23.1	27.4	-5.3	35.8	12.7
No. of shares (cr)	13	13	13	13	13
Adj EPS (Rs)	10	12	12	16	18
% change	23.1	27.4	-5.3	35.8	12.7
DPS (Rs)	1.0	1.5	1.5	2.0	2.0

CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	187.3	254.4	243.6	330	372
Non-cash adj.	5.0	3.7	(88.6)	(33)	(16)
Changes in W.C	9.7	(92.3)	(105.8)	(49)	(36)
C.F. Operation	147.6	104.1	67.3	180	222
Capital exp.	(29.5)	(40.0)	(91.3)	(39)	(40)
Change in inv.	(323)	2.2	14.7	(99)	(70)
Other invest.CF	0.0	0.0	(4.9)	(12)	(14)
C.F- Investment	(352)	(37.8)	(81.5)	(150)	(124)
Issue of equity	-	-	-	-	-
Issue/repay debt	(9.4)	(30.1)	0.4	0	0
Dividends paid	(12.7)	(19.1)	0.0	0	0
Other finance.CF	(5.7)	(4.6)	10.3	25	(10)
C.F - Finance	(30.4)	(57.7)	10.6	(1)	(35)
Chg. in cash	(235)	8.6	(3.6)	29	64
Closing cash	4.5	12.8	9.2	40	104

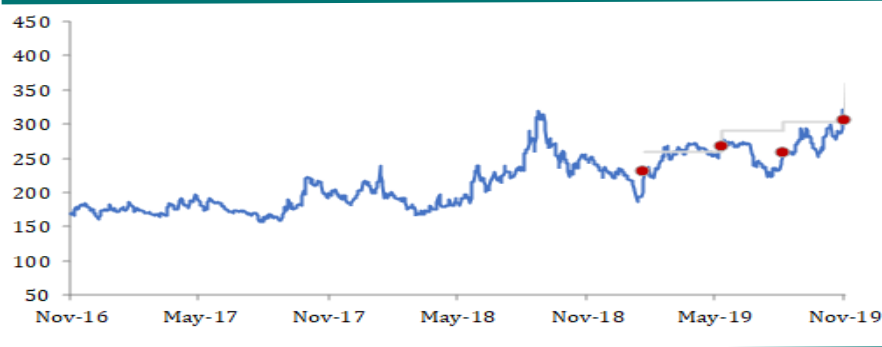
BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	4.1	12.8	9.2	40.3	104.1
Account Receivable	45.8	61.5	150.1	182.8	198.7
Inventories	92.5	139.5	157.1	198.6	226.9
Other Cur. Assets	6.3	6.6	4.4	8.9	10.2
Investments	366.0	381.0	366.4	460.0	530.0
Gross Fixed Assets	347.6	372.6	377.6	433.5	493.5
Net Fixed Assets	304.6	305.0	287.6	319.1	351.4
CWIP	9.7	24.7	111.1	100.0	80.0
Intangible Assets	1.3	2.8	2.7	8.0	8.0
Def. Tax (Net)	1.9	(1.3)	(0.8)	(15)	(15)
Other Assets	43.9	74.2	79.1	90.9	104.6
Total Assets	876	1,007	1,167	1393	1598
Current Liabilities	80.0	82.8	81.0	114.3	123.8
Provisions	6.9	8.4	9.7	11.1	12.7
Debt Funds	25.9	1.4	1.8	1.8	1.8
Other Liabilities	1.6	23.2	48.9	39.9	45.7
Equity Capital	12.7	12.7	12.7	12.7	12.7
Reserves & Surplus	718.8	854.0	978.2	1153	1351
Shareholder's Fund	731.5	866.7	990.9	1166	1364
Total Liabilities	876	1,007	1,167	1393	1598
BVPS	57.5	68.1	77.9	91.6	107.2

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab & Return					
EBITDA margin (%)	30.4	37.1	33.7	38.4	37.4
EBIT margin (%)	26.5	33.7	30.3	35.4	34.4
Net profit mgn.(%)	22.7	25.2	22.5	25.0	24.7
ROE (%)	18.3	19.7	16.1	18.8	18.1
ROCE (%)	19.7	24.3	20.3	24.7	23.5
W.C & Liquidity					
Receivables (days)	33.3	31.3	58.2	74.7	74.9
Inventory (days)	59.0	67.7	81.6	79.8	83.5
Payables (days)	4.1	9.6	26.9	27.5	23.0
Current ratio (x)	1.8	2.4	3.5	3.4	4.0
Quick ratio (x)	0.7	0.9	2.0	2.0	2.4
Turnover &Leverage					
Gross asset T.O (x)	1.6	1.7	1.8	2.0	2.0
Total asset T.O (x)	0.7	0.7	0.6	0.6	0.6
Int. covge. ratio (x)	25.5	45.9	53.4	48.6	47.0
Adj. debt/equity (x)	0.1	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	5.2	4.5	5.9	4.8	4.1
EV/EBITDA (x)	17.2	12.1	17.4	12.4	11.0
P/E (x)	22.6	17.7	25.8	19.0	16.9
P/BV (x)	3.8	3.2	3.9	3.3	2.8

Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
07th Feb 2019	Buy	260
29th May 2019	Hold	291
26th August 2019	Buy	303
21st November 2019	Buy	360

Investment Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute ‘Accumulate’ as Buy and ‘Reduce’ as Sell.
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Neutral- The analyst has no investment opinion on the stock under review

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