

Strong show in FY20; outlook upbeat...

In accordance with Suven Life Sciences (SLS) management's endeavour to split its innovation and CRAMS businesses, the company had announced a demerger of its CRAMS business in January, 2020 to be held by the demerged entity, Suven Pharma (SPL), while SLS will continue to hold the discovery research segment and IPs. Subsequently, SPL shares got listed on Indian bourses on March 9, 2020.

On the results front, SPL's FY20 revenues (including OI) were at ₹ 852 crore driven by 24% YoY growth in the CRAMS segment to ~₹ 470 crore, 41% growth in specialty chemicals segment (~₹ 300 crore) and 40% expansion in the CTS & formulations business (~₹ 70 crore). EBITDA for the year came in at ₹ 385 crore with strong EBITDA margin of 46.2%. Net profit for FY20 was at ₹ 317 crore with an NPM of 38.0%.

Key Conference Call Takeaways

- Suven currently has 11 ANDAs filed in US (two from Rising Pharma), plans to file two, three more in FY21 with six molecules in development
- In Q4FY20, the company launched one more molecule in specialty chemicals and has two others in development (2021-22 launch) with a potential of ₹ 50 crore each
- Out of the ₹ 320 crore planned capex, ~₹ 220 crore has been completed (₹ 94 crore capitalised) while the rest is expected to be done by FY21
- Two ANDAs were launched in FY21, with one more to be commercialised. All products are on profit sharing basis (25-50%). Each molecule may contribute between ₹ 2 crore & ₹ 4 crore to the bottomline
- The management saw fall in new projects, which may not impact FY21 due to existing orders but may hamper FY22 growth if the trend sustains
- Going ahead, likely profit contribution from Rising Pharma to be ~₹ 12-15 crore per quarter

Valuation & Outlook

Post de-merger, the pharma business will be largely driven by two cash cow segments i.e. innovative CRAMS and speciality chemicals. With strong margin profile (+40%) without the R&D burden of innovative pipeline, the free cash flow is likely to remain strong. Despite pandemic and high base, the company has guided 10-15% growth based on strong order book position (albeit some expected delays). Despite a significant run up there is still scope for upside as the company is still trading at significant discount to some leading players in the space dealing with innovators. We emphasise on the strong execution capability and focused approach without the burden of success/failure of the innovative pipeline. We have a **BUY** rating on the stock with a target price of ₹ 690 based on 20x on FY22 EPS of ₹ 34.4.

Key Financial Summary

₹Crore	FY20	FY21E	FY22E	CAGR FY20-22 (%)
Revenues	833.8	951.5	1108.0	15.3
EBITDA	385.1	399.8	476.4	11.2
EBITDA margins (%)	46.2	42.0	43.0	
Net Profit	317.0	358.1	438.2	17.6
EPS (₹)	24.9	28.1	34.4	
PE (x)	21.0	18.6	15.2	
EV to EBITDA (x)	17.6	16.5	13.1	
RoE (%)	37.5	30.3	27.5	
RoCE (%)	35.6	31.4	30.1	

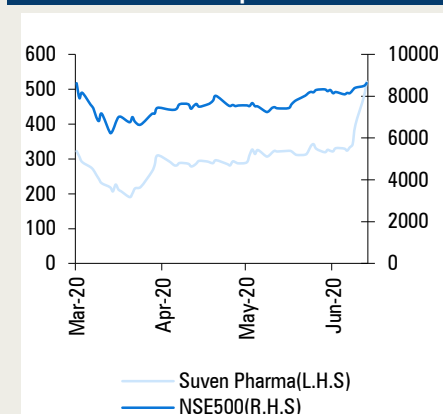
Source: ICICI Direct Research; Company



Particulars

Particular	Amount
Market Capitalisation	₹6655 crore
Debt (FY 20)	₹185 crore
Cash (FY 20)	₹14 crore
EV	₹6826 crore
52 week H/L (₹)	525/174
Equity capital	₹13 crore
Face value	₹1

Price Performance Graph



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Financial Summary

Exhibit 1: Profit and loss statement		₹ crore		
(Year-end March)	FY20	FY21E	FY22E	
Revenues	833.8	951.5	1,108.0	
Growth (%)	NA	14.1	16.4	
Raw Material Expenses	229.2	271.2	315.8	
Employee Expenses	73.7	104.7	110.8	
Other Manufacturing Expenses	145.8	175.9	205.0	
Total Operating Expenditure	448.7	551.7	631.5	
EBITDA	385.1	399.8	476.4	
Growth (%)	124.5	3.8	19.2	
Interest	23.1	16.3	10.0	
Depreciation	23.9	35.0	36.7	
Other Income	18.1	66.6	90.9	
PBT before Exceptional Items	356.3	415.1	520.5	
Less: Forex & Exceptional Items	0.0	0.0	0.0	
PBT	404.5	471.1	576.5	
Total Tax	87.5	113.1	138.4	
PAT before MI	317.0	358.1	438.2	
Minority Interest	0.0	0.0	0.0	
PAT	317.0	358.1	438.2	
Adjusted PAT	317.0	358.1	438.2	
Growth (%)	190.1	13.0	22.4	
EPS	24.9	28.1	34.4	
EPS (Adjusted)	24.9	28.1	34.4	

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement		₹ crore		
(Year-end March)	FY20	FY21E	FY22E	
Profit/(Loss) after taxation	318.1	358.1	438.2	
Add: Depreciation & Amortization	23.7	35.0	36.7	
Net Increase in Current Assets	18.0	-46.7	-60.8	
Net Increase in Current Liabilities	27.2	13.6	17.2	
Others	5.9	0	0	
CF from operating activities	415.9	376.2	433.8	
(Inc)/dec in Fixed Assets	-99.3	-139.0	-35.0	
(Inc)/dec in Investments	-337.2	0.0	0.0	
Others	15.4	2.1	2.3	
CF from investing activities	-421.1	-136.9	-32.7	
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	
Inc / (Dec) in sec. Loan	102.5	-30.0	-30.0	
Dividend & Dividend Tax	-76.7	-23.0	-23.0	
Others	-19.41	-16.31	-2.51	
CF from financing activities	6.4	-69.3	-55.5	
Net Cash flow	1.2	170.0	345.6	
Opening Cash	12.9	14.1	184.1	
Closing Cash	14.1	184.1	529.7	
Free Cash Flow	316.7	237.2	398.8	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet		₹ crore		
(Year-end March)	FY20	FY21E	FY22E	
Equity Capital	12.7	12.7	12.7	
Reserve and Surplus	832.0	1,167.1	1,582.3	
Total Shareholders fund	844.8	1,179.9	1,595.0	
Total Debt	185.3	155.3	125.3	
Deferred Tax Liability	27.6	30.4	33.4	
Minority Interest	0.0	0.0	0.0	
Other Non Current Liabilities	8.8	9.7	10.7	
Source of Funds	1,066.5	1,375.2	1,764.4	
Gross Block - Fixed Assets	474.2	699.2	734.2	
Accumulated Depreciation	117.5	152.5	189.2	
Net Block	356.7	546.8	545.1	
Capital WIP	101.7	15.7	15.7	
Net Fixed Assets	458.4	562.5	560.8	
Investments	338.1	338.1	338.1	
Inventory	174.9	199.6	232.4	
Cash	14.1	184.1	529.7	
Debtors	117.2	133.7	155.7	
Loans & Advances & Other CA	0.0	0.0	0.0	
Total Current Assets	361.0	577.7	984.1	
Creditors	71.1	81.1	94.4	
Provisions & Other CL	35.3	38.8	42.7	
Total Current Liabilities	106.3	119.9	137.1	
Net Current Assets	254.6	457.8	847.0	
LT L& A, Other Assets	15.3	16.8	18.5	
Deferred Tax Assets	0.0	0.0	0.0	
Application of Funds	1,066.5	1,375.2	1,764.4	

Source: Company, ICICI Direct Research

Exhibit 4: Ratio Analysis		₹ crore		
(Year-end March)	FY20	FY21E	FY22E	
Per share data (₹)				
EPS	24.9	28.1	34.4	
Cash EPS	23.1	26.3	32.6	
BV	66.4	92.7	125.3	
DPS	1.8	1.8	1.8	
Cash Per Share	9.2	12.0	14.9	
Operating Ratios (%)				
Gross Profit margins	72.5	71.5	71.5	
EBITDA margins	46.2	42.0	43.0	
Net Profit margins	38.0	37.6	39.5	
Inventory days	76.6	76.6	76.6	
Debtor days	51.3	51.3	51.3	
Creditor days	31.1	31.1	31.1	
Return Ratios (%)				
RoE	37.5	30.3	27.5	
RoCE	35.6	31.4	30.1	
RoIC	79.5	59.7	77.7	
Valuation Ratios (x)				
P/E	21.0	18.6	15.2	
EV / EBITDA	17.6	16.5	13.1	
EV / Revenues	8.2	6.9	5.6	
Market Cap / Revenues	8.0	7.0	6.0	
Price to Book Value	7.9	5.6	4.2	
Solvency Ratios				
Debt / E equity	0.2	0.1	0.1	
Debt/EBITDA	0.5	0.4	0.3	
Current Ratio	3.3	3.3	3.3	

Source: Company, ICICI Direct Research

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Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



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