

16 August 2021

Suven Pharmaceuticals

Forward integration, swift pipeline progress to boost growth; Buy

In Q4 FY21, Suven Pharma's gross margin had fallen to 64.7%. In Q1 FY22 it recovered, expanding 60bps y/y at 70.9% due to more sales of the CDMO pharma division. Revenue grew 10.7% to Rs2.6bn, backed by 22.8% growth in CDMO pharma and 28.8% in Formulations and Other services. CDMO specialty chemicals, though, declined 9.2% y/y as more quantities were shipped a year ago. The EBITDA margin softened 360bps to 43.4% due to higher employee and freight costs. Its Vizag plant will help the company step up in the value chain while the late-stage clinical pipeline was boosted by four molecules moving from phase-2 to phase-3 in the last six months. We expect strong, 18.5%/21.4%, CAGRs in revenue/profit over FY21-23, driven by commercial supplies for two specialty-chemical products (one in the pharma division), and the launch of 3-5 formulation products a year. We raise our FY22e/FY23e PAT 1.6%/4.9%. We retain our Buy rating, with a higher target of Rs630 (earlier Rs560).

Scale-up of molecules to drive CDMO growth. In Q1 FY22, the CDMO pharma division grew 22.8% y/y to Rs1.5bn as a couple of molecules moved from phase-2 to phase-3. Management is confident of beginning commercial supplies for one specialty chemical molecule in FY22 and one in pharma in FY23. We expect 16.7%/21% sales CAGRs in its CDMO pharma/specialty chemicals divisions over FY21-23.

Launches to improve formulations traction. Q1 FY22 Formulations and other services sales grew 28.8% to Rs255m. The company has launched six products so far in the US and has six more pending approval. It aims to file 4-6 products in FY22 and launch two ANDAs in the next six months. We expect this category to grow 22.5% over FY21-23.

Valuation. At the CMP, the stock trades at 31.1x and 25.9x FY22e/FY23e earnings. We retain our Buy, with a higher TP of Rs630 (earlier Rs560), on 30x FY23e EPS. **Risks:** Currency fluctuations, delay in orders from clients.

Key financials (YE Mar)	FY19	FY20	FY21	FY22e	FY23e
Sales (Rs m)	6,536	8,338	10,097	11,971	14,174
Net profit (Rs m)	1,879	3,170	3,623	4,444	5,342
EPS (Rs)	7.4	12.5	14.2	17.5	21.0
P/E (x)	73.5	43.6	38.1	31.1	25.9
EV / EBITDA (x)	50.7	36.3	31.3	25.5	20.7
P/BV (x)	23.4	16.4	11.7	9.1	7.2
RoE (%)	27.7	44.2	35.8	32.9	31.0
RoCE (%)	24.9	33.7	27.2	27.2	26.9
Dividend yield (%)	0.3	0.9	0.5	0.6	0.8
Net debt / equity (x)	0.1	0.2	-0.0	-0.1	-0.2

Source: Company, Anand Rathi Research

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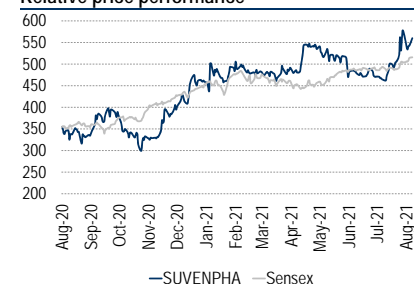
Rating: Buy
Target Price: Rs630
Share Price: Rs543

Key data	SUVENPHA IN
52-week high / low	Rs.590 / 292
Sensex / Nifty	55583 / 16563
3-m average volume	\$2.8m
Market cap	Rs142bn / \$1919m
Shares outstanding	255m

Shareholding pattern (%)	Jun'21	Mar'21	Dec'20
Promoters	60.0	60.0	60.0
- of which, Pledged	-	-	-
Free float	40.0	40.0	40.0
- Foreign institutions	7.9	2.5	6.0
- Domestic institutions	4.5	6.9	4.7
- Public	27.6	30.6	29.3

Estimates revision (%)	FY22e	FY23e
Sales	1.1	3.7
EBITDA	1.1	3.7
PAT	1.6	4.9

Relative price performance



Source: Bloomberg

Abdulkader Puranwala
Research Analyst

Quick Glance – Consolidated Financials and Valuations

Fig 1 – Income statement (Rsm)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Net revenues	6,536	8,338	10,097	11,971	14,174
<i>Growth (%)</i>	<i>4.5</i>	<i>27.6</i>	<i>21.1</i>	<i>18.6</i>	<i>18.4</i>
Direct costs	1,735	2,292	3,019	3,496	4,068
SG&A	2,062	2,198	2,673	3,112	3,614
EBITDA	2,739	3,848	4,405	5,363	6,492
<i>EBITDA margins (%)</i>	<i>41.9</i>	<i>46.1</i>	<i>43.6</i>	<i>44.8</i>	<i>45.8</i>
- Depreciation	221	235	316	422	526
Other income	242	181	142	221	248
Interest expenses	38	231	91	46	-
+ Associates / (Minorities)	-	482	537	618	680
PBT	2,722	4,045	4,677	5,734	6,894
<i>Effective tax rates (%)</i>	<i>31.0</i>	<i>21.6</i>	<i>22.5</i>	<i>22.5</i>	<i>22.5</i>
Net Income	1,036	3,170	3,623	4,444	5,342
Adjusted income	1,879	3,170	3,623	4,444	5,342
WANS	255	255	255	255	255
FDEPS (Rs / share)	7.4	12.5	14.2	17.5	21.0
<i>R&D (% of sales)</i>	<i>-</i>	<i>1.7</i>	<i>1.1</i>	<i>1.1</i>	<i>1.1</i>

Fig 3 – Cash-flow statement (Rsm)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
PBT	2,722	4,045	4,677	5,734	6,894
+ Non-cash items	221	235	316	422	526
Oper. prof. before WC	2,944	4,280	4,993	6,156	7,420
- Incr. / (decr.) in WC	1,161	-533	180	748	582
Others incl. taxes	586	888	1,017	1,290	1,551
Operating cash-flow	1,198	3,925	3,796	4,118	5,287
- Capex (tang.+intang.)	716	1,000	1,107	2,000	2,000
Free cash-flow	481	2,925	2,690	2,118	3,287
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	249	763	872	1,070	1,286
+ Equity raised	-	-	127	-	-
+ Debt raised	497	1,025	-432	-1,056	-
- Fin investments	-2,717	3,310	2,037	-	-
- Misc. (CFI + CFF)	1,913	(135)	(479)	-	0
Net cash-flow	1,533	12	-44	-8	2,001

Source: Company, Anand Rathi Research

Fig 5 – Price movement


Source: Bloomberg

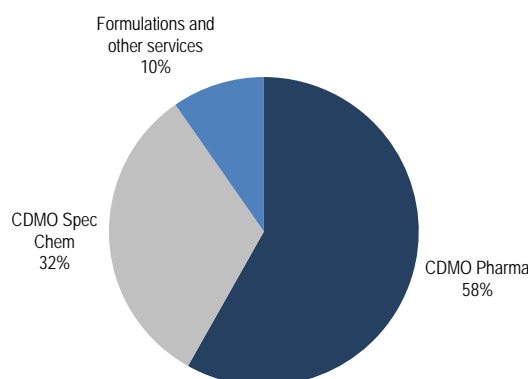
Fig 2 – Balance sheet (Rsm)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Share capital	127	127	255	255	255
Net worth	5,903	8,448	11,808	15,182	19,239
Debt	837	1,862	1,430	374	374
Minority interest	-	-	-	-	-
DTL / (Assets)	292	276	309	309	309
Capital employed	7,032	10,586	13,548	15,866	19,922
Net tangible assets	2,682	3,539	4,387	6,503	7,969
Net intangible assets	27	28	24	37	44
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	1,111	1,017	963	413	413
Investments (strategic)	-	3,075	3,612	3,612	3,612
Investments (financial)	71	307	1,806	1,806	1,806
Current assets (ex cash)	3,810	3,622	3,855	4,692	5,516
Cash	129	141	97	88	2,089
Current liabilities	798	1,142	1,197	1,285	1,528
Working capital	3,012	2,479	2,659	3,406	3,988
Capital deployed	7,032	10,586	13,548	15,866	19,922
Contingent liabilities	109	-	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	73.5	43.6	38.1	31.1	25.9
EV / EBITDA (x)	50.7	36.3	31.3	25.5	20.7
EV / Sales (x)	21.2	16.7	13.6	11.4	9.5
P/B (x)	23.4	16.4	11.7	9.1	7.2
RoE (%)	27.7	44.2	35.8	32.9	31.0
RoCE (%) - after tax	24.9	33.7	27.2	27.2	26.9
DPS (Rs / sh)	1.6	5.0	2.8	3.5	4.2
Dividend yield (%)	0.3	0.9	0.5	0.6	0.8
Dividend payout (%) - incl. DDT	24.1	24.1	24.1	24.1	24.1
Net debt / equity (x)	0.1	0.2	-0.0	-0.1	-0.2
Receivables (days)	82	51	37	41	41
Inventory (days)	88	77	73	67	66
Payables (days)	30	31	30	24	25
CFO : PAT %	63.7	123.8	104.8	92.7	99.0

Source: Company, Anand Rathi Research

Fig 6 – Revenue break-up (Q1 FY22)


Source: Bloomberg

Result highlights

Fig 7 – Quarterly financials

(Rs m)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	% Y/Y	% Q/Q
Sales	1,787	1,848	2,382	2,374	2,749	2,592	2,638	10.7	1.8
Gross profit	1,349	1,318	1,675	1,638	2,087	1,678	1,871	11.7	11.5
<i>Gross margins (%)</i>	75.5	71.3	70.3	69.0	75.9	64.7	70.9	60bps	616bps
EBITDA	796	766	1,121	985	1,373	937	1,146	2.3	22.3
<i>EBITDA margins (%)</i>	44.6	41.4	47.0	41.5	49.9	36.2	43.4	-360bps	729bps
Finance expenses	76	65	32	33	19	19	21	(33.7)	13.6
Depreciation	56	70	71	75	88	83	90	27.3	8.2
Other income	49	53	57	4	48	33	58	0.8	75.3
PBT	777	894	1,179	968	1,475	1,055	1,329	12.8	26.0
Tax	198	152	263	228	339	224	278	5.7	24.5
<i>Effective tax rates (%)</i>	25	17	22	24	23	21	21	(6.3)	(1.2)
Adjusted PAT	579	742	915	741	1,136	831	1,051	14.8	26.4

Source: Company, Anand Rathi Research

Fig 8 – Revenue break-up

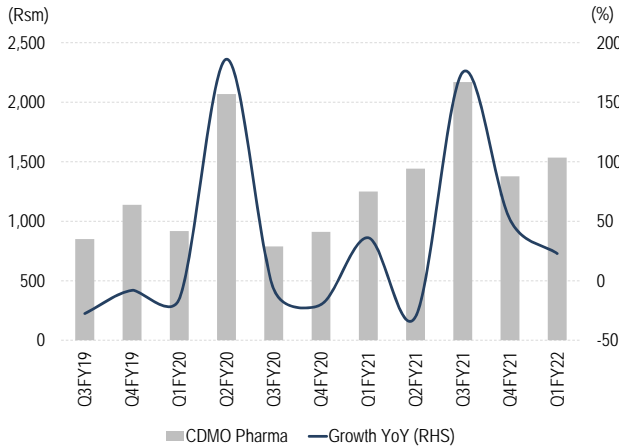
(Rs m)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	% Y/Y	% Q/Q
CDMO pharma	789	910	1,249	1,442	2,170	1,377	1,534	22.8	11.4
<i>% of sales</i>	43.6	49.3	52.4	60.7	78.9	53.1	58.1	-	-
CDMO specialty chemicals	687	800	935	682	347	1,094	849	(9.2)	(22.4)
<i>% of sales</i>	38.0	43.3	39.3	28.7	12.6	42.2	32.2	-	-
Formulations and other services	332	138	198	250	233	121	255	28.8	111.4
<i>% of sales</i>	18.4	7.4	8.3	10.5	8.5	4.7	9.7	-	-
Total	1,808	1,848	2,382	2,374	2,749	2,592	2,638	10.7	1.8

Source: Company, Anand Rathi Research

Highlights, segment-wise

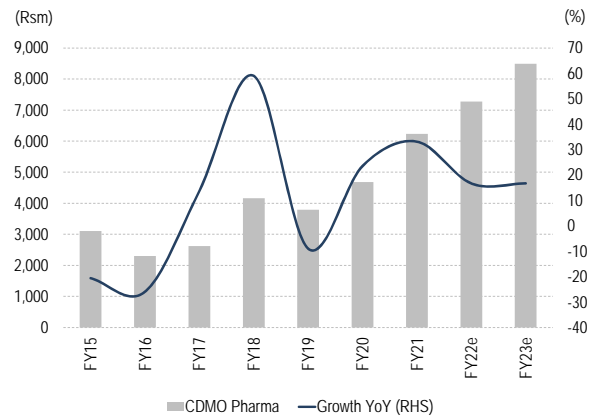
- CDMO Pharma, the company has commercialised four molecules. It has 70-80 products in clinical phases. It recorded a 22.8% y/y growth to Rs1.5bn.
- Traction in existing molecules and commercialisation of new molecules will clock 16.7% CAGRs over FY21-FY23

Fig 9 – CDMO Pharma grew 22.8% y/y



Source: Company, AnandRathi Research

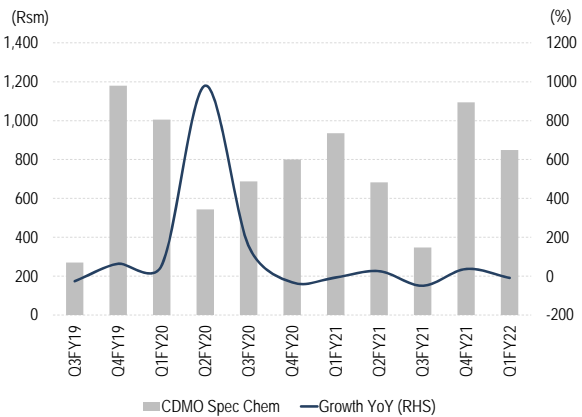
Fig 10 – CDMO Pharma expected to clock a 16.7% CAGR over FY21-23



Source: Company, AnandRathi Research

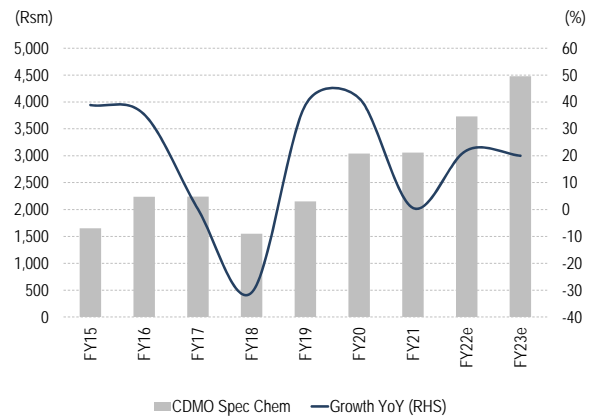
- **CDMO speciality chemicals.** The company has three molecules, of which one was added in Q4FY21. It recorded Rs849m revenues down 9.2% y/y due to more shipments in Q4FY21.
- Scale up in existing molecules and new additions will be driving a 21% CAGR over FY21-FY23.

Fig 11 – Higher shipments in last quarter affected revenue growth



Source: Company, AnandRathi Research

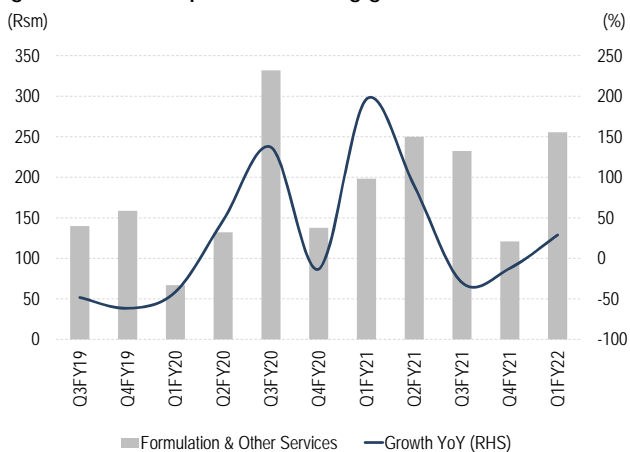
Fig 12 – CDMO Spec chem expected to clock a 21% CAGR over FY21-23



Source: Company, AnandRathi Research

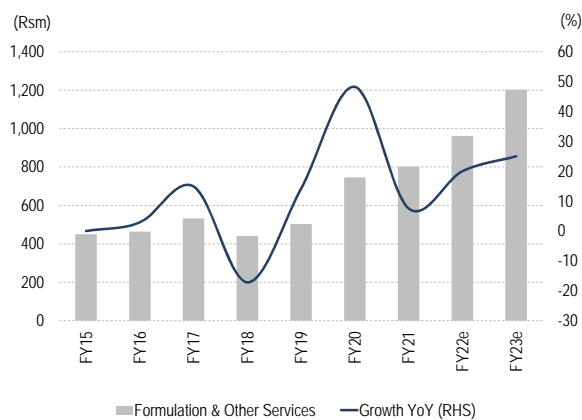
- **Formulations and other services.** Formulations have been the growth drivers of the segment. It recorded 28.8% y/y growth to Rs255m.
- Approvals and launches of 2-3 new ANDAs in the next six months will clock a 22.5% CAGR over FY21-23.

Fig 13 – Launch of products driving growth



Source: Company, AnandRathi Research

Fig 14 – Formulations expected to clock a 22.5% CAGR over FY21-23



Source: Company, AnandRathi Research

Concall highlights, Key takeaways

Q1 performance

- Higher raw material and logistics costs cut into margins.
- Employee cost was higher due to annual increments to staff.
- Suven is likely to capitalise Rs1bn capex by Sep'21.

Molecule addition

- In Q1 two more molecules were added to the phase-3 pipeline in CDMO Pharma. The company now has five molecules in phase-3.
- One specialty-chemical molecule is likely to be commercialised by end-FY22.

Formulations

- The company has so far filed 13 ANDAs with the USFDA, of which seven have been approved and six launched. It further aims to launch 2-3 ANDAs in the next six months.
- It aims to file 4-6 ANDAs in FY22.
- It has a front-end partner for all the 13 molecules filed with the USFDA.

Guidance

- It has envisaged capex of Rs6bn, spread over three years.
- It will spend Rs2bn to refurbish the Suryapet plant, Rs2bn for a new R&D site and Rs1.75bn-2bn to add a new block at the Pashamylaram plant.
- It targets 10-15% revenue growth for FY22.
- Specialty chemicals segment growing 5-10% in FY22.
- Growth in income from rising JV will be 10-15%.
- Planning to hire a professional CEO and will be interviewing candidates over the next 4-5 months.

Fig 15 – Sales break-up assumptions

(Rsm)	FY21	FY22e	FY23e
CDMO pharma	6,237	7,277	8,493
% Y/Y	33.2	16.7	16.7
% of Sales	61.8	60.8	59.9
CDMO specialty chemicals	3,059	3,732	4,479
% Y/Y	0.6	22.0	20.0
% of Sales	30.3	31.2	31.6
Formulations and other services	802	962	1,203
% Y/Y	7.5	20.0	25.0
% of Sales	7.9	8.0	8.5
Total	10,098	11,971	14,174

Source: Company, AnandRathi Research

Valuations

We raise our FY22e and FY23e EBITDA 1.1% and 3.7% respectively, and PAT 1.6% and 4.9% on account of traction in commercial molecules and pipeline movement.

Fig 16 – Change in estimates

(Rs m)	Old estimates		New estimates		Change (%)	
	FY22	FY23	FY22	FY23	FY22	FY23
Revenue	11,846	13,673	11,971	14,174	1.1	3.7
EBITDA	5,307	6,262	5,363	6,492	1.1	3.7
PAT	4,375	5,093	4,444	5,342	1.6	4.9

Source: Anand Rathi Research

Fig 17 – PE Band – one-year-forward



Source: Company, Anand Rathi Research

Fig 18 – Standard deviation – one-year-forward



Source: Company, Anand Rathi Research

The margin which had slipped in Q4 FY21 due to an unfavourable product mix recovered in Q1. The company's late-stage clinical pipeline has improved from one molecule six months ago; now it has five in phase-3. Management is upbeat about near-term order assurance and expects 10-15% revenue growth in FY22.

In FY22 the company may begin supplying for one additional commercial molecule in specialty chemicals, which would drive strong, 21%, growth in the category. Apart from the four commercial molecules in the pharma division, it will also have one more product in FY23. In formulations, it would file 4-6 ANDAs by end-FY22, with each product contributing \$2m-4m to profits.

Traction in its CDMO division and steady formulation launches would drive 18.5% and 21.4% growth over FY21-23 in sales and earnings, respectively. At the CMP of Rs543, the stock trades at 31.1x and 25.9x respective FY22e and FY23e earnings. We retain our Buy recommendation with a higher target of Rs630 (earlier Rs560).

Risks

- Currency fluctuations
- Loss of patent for commercial molecules
- Delay in orders from clients.

Fig 19 – Valuation Summary

	RATING	CMP (Rs)	TP (Rs)	M Cap (Rs bn)	EPS (Rs)			P/E (x)			EV / EBITDA (x)			RoE (%)		
					FY21	FY22e	FY23e	FY21	FY22e	FY23e	FY21	FY22e	FY23e	FY21	FY22e	FY23e
Aarti Drugs	Buy	635	844	62.8	30.1	30.2	42.2	21.1	21.1	15.0	15.6	14.8	10.7	35.8	27.4	30.1
Ajanta	Buy	2277	2795	210.0	75.2	96.6	116.4	30.3	23.6	19.6	15.4	17.5	14.4	23.4	25.0	24.3
Alembic	Hold	770	955	179.0	59.9	38.6	46.7	12.8	19.9	16.5	7.0	16.2	12.2	28.2	14.0	15.2
Alkem	Hold	3707	3644	415.0	132.6	140.1	151.8	28.0	26.5	24.4	16.8	19.5	17.4	23.4	21.0	19.8
Zydus Cadila	Sell	532	522	577.2	21.7	22.1	23.9	24.5	24.0	22.2	18.3	16.5	14.9	19.0	16.4	15.8
Eris	Hold	735	804	104.8	26.2	28.6	32.1	28.1	25.7	22.9	18.3	20.8	17.9	24.7	22.4	21.2
Granules India	Hold	354	392	92.0	22.2	20.4	24.2	16.0	17.4	14.6	11.3	11.5	9.6	27.4	21.1	20.9
Indoco Remedies	Sell	482	348	40.7	10.1	13.6	19.1	47.7	35.4	25.2	19.3	14.7	12.3	12.8	15.1	18.0
Ipca Labs	Hold	2405	2462	274.4	88.4	86.4	102.6	27.2	27.8	23.4	17.8	17.3	14.3	26.8	21.1	20.8
JB Chemicals	Hold	1721	1890	137.2	58.0	63.8	72.7	29.7	27.0	23.7	16.1	20.7	17.6	27.6	24.9	23.9
Natco Pharma	Hold	985	1139	188.9	24.2	33.2	84.4	40.7	29.6	11.7	30.6	22.3	9.0	11.2	13.9	29.8
Neuland	Sell	1680	1268	24.2	62.5	55.2	70.5	26.9	30.4	23.8	17.3	17.1	13.9	10.8	8.7	10.2
Pfizer	Buy	5715	6520	270.8	108.8	138.0	152.7	52.5	41.4	37.4	27.5	28.9	25.7	17.2	24.1	22.5
Suven Pharma	Buy	543	630	138.2	14.2	17.5	21.0	38.1	31.1	25.9	31.3	25.5	20.7	35.8	32.9	31.0
Torrent Pharma	Buy	2956	3664	508.4	74.0	79.4	98.2	40.0	37.2	30.1	22.1	19.4	16.5	23.5	21.6	23.5

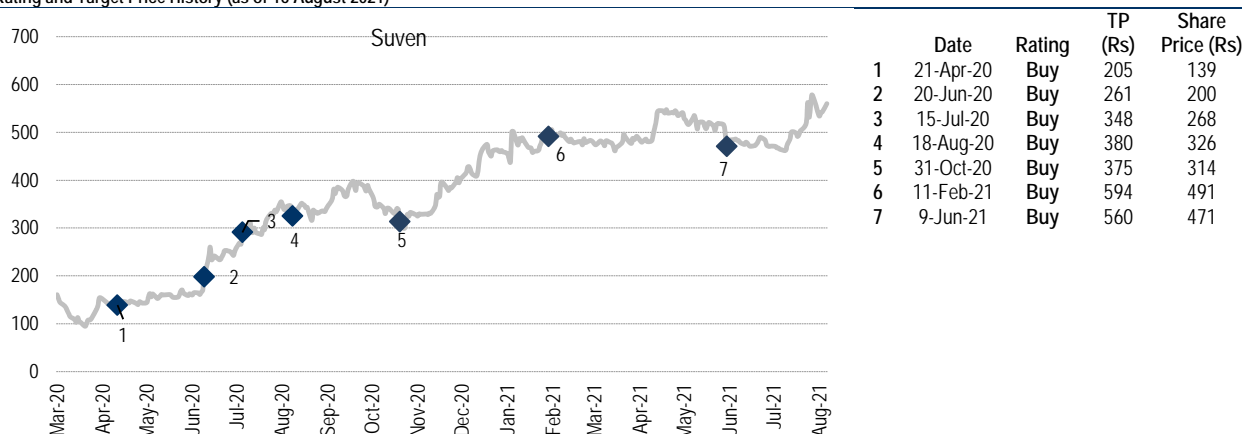
Source: Company, Anand Rathi Research

Appendix

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	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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