

Good Times Continues...

Suven reported excellent quarter well ahead of our estimates, revenue grew 19% YoY. CRAMS segment doubled its revenues over previous year. One molecule from phase three has moved to commercialization stage, which aided the growth during the quarter. CRAMS segment includes commercial supplies of ₹ 544mn, excluding this the Core CRAMS reported growth of 13% YoY. Specialty chemical supplies declined 29% YoY to ₹ 719mn during the quarter.

This year commercial supplies stood at ₹ 1.2bn which is only next to the highest ever FY14 number of ₹ 1.75bn, (largely bolstered by addition to commercialized molecule). In FY18, specialty chemical segment was expected to report ₹ 1.65bn sales which came slightly lower at ₹ 1.54bn.

EBITDA performance has been reflective of more contribution from higher margins business of CRAMS and lower contribution of Specialty chemical. EBITDA margins stood at 42.7% vs 26.7% last year, due to change in product mix. R&D spend stood at 8.1% of sales at ₹ 169mn, lowered by 12% YoY.

SUVN-502 -The company enrolled 443 patients for Phase II clinical trials. The company expects to complete the study with the assumption that last patient enters the trail by Sept'18 end and final data comes out by mid-2019. Remaining NCE, pipeline update - **SUVN G3031** Phase II clinical to start in 2018; **SUVN D4010** has completed Phase I; **SUVN 911** Phase I to complete by May'18. Company is adding another molecule in Phase I in FY19E.

Valuations

Our analysis indicates company's earnings have reached a sustainable base and will continue to improve on this base going ahead. We expect the core CRAMS base (Core CRAMs ~13 % CAGR FY14-18) coupled with the commercial/pre-commercial supplies that have started ramping up company is on better earning trajectory. One more molecule addition to commercial phase further enhances FY20E earnings outlook. However, FY19E consolidated number would see higher R&D spend as the SUVN 502 phase II trials are expected to conclude (remaining R&D spend of US\$ 10mn would be spilled over FY19E and FY20E, which larger portion in FY19E. With one of the best management with a focus on NCE development, this investment adds a huge option value from its current NCE pipeline called SUVN 502 (in Phase II A, trials ongoing). We have a Buy rating with 20x FY20E EPS, resulting in TP of ₹ 350. At CMP of ₹ 186, the stock is trading at 19x FY19E EPS of ₹ 10 and 15x FY20E EPS of ₹ 12.

Q4FY18 Result (₹ mn)

Particulars	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Net sales	2,083	1,750	19.0	1,627	28.0
Operating profit	858	430	99.5	505	70.0
Other Operating Income	54.3	51.5	5.4	9.2	491.0
EBITDA	912	482	89.4	514	77.5
Other Income	92	49	86.8	33	180.5
Depreciation	54	72	(25.4)	54	(1.0)
Interest	13	16	(20.1)	12	8.9
PBT	938.5	443.5	111.6	481.1	95.1
Tax	313	43	631.7	135	131.9
PAT	625.1	400.7	56.0	346.0	80.7
			(bps)		(bps)
Operating margin (%)	41.2	24.6	1662	31.0	1018
EBITDA Margins (%)	42.7	26.7	1595	31.4	1129
Tax Rate (%)	33.4	9.7	2374	28.1	531
R&D spend (% of sales)	8.1	11.0	(288)	8.5	(41)
NPM (%)	30.0	22.9	711	21.3	875

CMP	₹ 186
Target / Upside	₹ 350/88%
BSE Sensex	35,149
NSE Nifty	10,683

Script Details

Equity / FV	₹ 127mn/₹ 1/-
Market Cap	₹ 23.7bn
	USD 349mn
52-week High/Low	₹251 / ₹155
Avg. Volume (no)	25,710
NSE Symbol	SUVEN
Bloomberg Code	SVLS IN

Shareholding Pattern Mar'18(%)

Promoters	60.0
MF/Banks/FIs	4.7
FII's	2.5
Public / Others	32.8

Valuation (x)

	FY18	FY19E	FY20E
P/E	19.8	19.2	15.4
EV/EBITDA	12.4	12.1	9.4
ROE	17.4	16.0	17.6
ROCE	25.6	22.8	25.5

Estimates (₹ mn)

	FY18	FY19E	FY20E
Net Sales	6,253	6,377	7,253
EBITDA	1,982	1,960	2,455
PAT	1,237	1,276	1,586
EPS	9.7	10.0	12.5

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CRAMS

- CRAMS segment grew 101% to ₹ 1.2bn vs ₹ 614mn in Q4FY17. CRAMS business has contributed 59% to the Q4FY18 sales (vs 35% last year).
- Core CRAMS:** Core CRAMS during the quarter stood ₹ 693mn, delivering a growth of 13% YoY. The net addition of 2 molecules in phase I products including 4 net addition in the phase II provides a better outlook for earnings in FY19 and beyond.
- Commercial supply stood at ₹ 544mn during the quarter. For FY19, commercial sale stood at ₹ 1.2bn which comprises of RA, Diabetic molecule, Anti-depressant and another NDA molecule in Women's Health. The company expects these molecules to contribute ~ ₹ 1bn in FY20E.
- Project portfolio underwent a churn number of Phase I projects increased from 64 in 2015-16 to 72 in FY18. The numbers of projects for FY18 is 113.
- Out of the 5 Phase III products, 4 are commercial.
- The company received 5 product patents covering India, Canada, Eurasia, Australia, Europe, Norway, South Korea, Singapore and Aripo.

Exhibit 1: Active Pipeline

	FY14	FY15	FY16	FY17	FY18
Phase I	52	57	64	70	72
Phase II	46	52	48	38	36
Phase III	1	1	1	2	5
Total Active Projects	99	110	113	110	113

Source: DART, Company





Specialty Chemicals

- The specialty segment reported revenues of ₹ 719mn vs ₹ 1.0bn last year (35% of the Q4FY18 sales).
- The management expects the segment to stabilize over next couple of years.
- The company is working on three new molecule additions with target launch during FY19E-21E.
- The company has filed for ANDA which led to USFDA inspection at Pashamylaram.

CTS

- The segment revenues for Q4FY18 stood at ₹ 126mn vs ₹ 120mn last year.

Exhibit 2: Key Products Clinical Trial

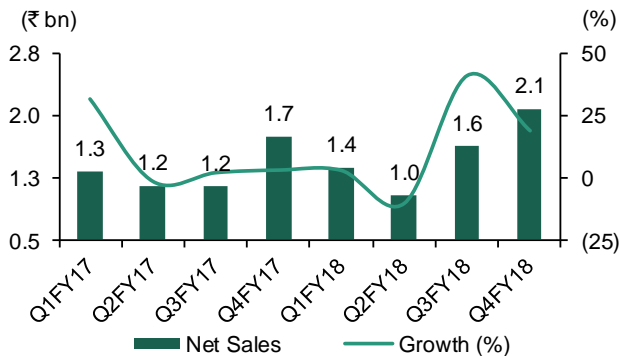
Candidates	Pre-clinical	Clinical phase			Indication
		I	II	III	
SUVN 502(5-HT6 Antagonist)					Cognitive Deficits Associated with Alzheimer's Disease
SUVN G3031 (Histamine-3 Antagonist)					
SUVN D4010 (5-HT4 Partial Antagonist)					
SUVN 911					Depression (MDD)

Source: DART, Company

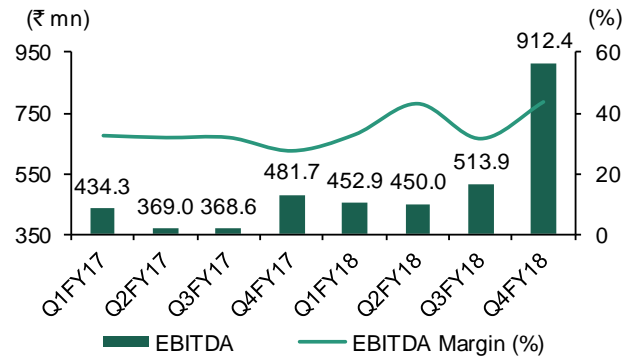
- **SUVN 502:** 443 patients have been enrolled out of required 537. The management expects completion of enrollment by Sept'18 and the study by mid-2019. The company has spent around USD 15mn of which USD 5mn has occurred during FY18.
- **ANDA progress** - The company is working on high value, low volume 8-10 molecules by FY20E. The small volume molecules would be with profit sharing partnership ranging from 35% to 50%. The company has filed 2 ANDA on own and 2 with partners. The management also guided 2-3 ANDAs filing per annum.

Management Guidance

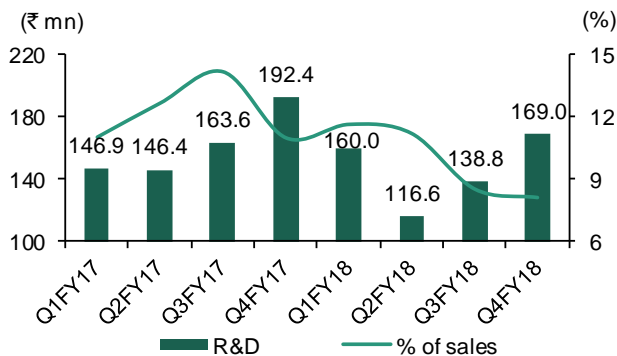
- The management has guided for Core CRAMS revenues to increase in the tune of 10-15% YoY and commercial supplies could be in the range of ₹ 900mn to ₹ 1 bn. EBITDA margins expected to be upwards of 30%.
- **Capex:** The management guided capex of Rs 1.5bn spread over 18 months. The company is working on 1 Oral Solid Dosage formulation plant and also on additional Vizag plant.
- **R&D:** The company has guided R&D spend to be above ₹ 1.2bn in FY19E. R&D on Phase III to be in the tune of USD 8-10mn in FY19E.

Exhibit 3: CRAMS jumped 101% YoY


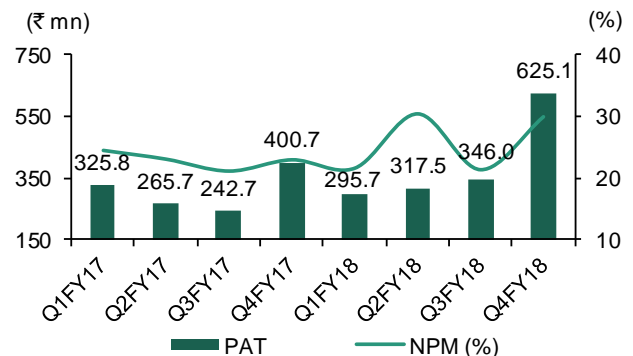
Source: DART, Company

Exhibit 4: EBITDA margin at 42.7% in Q4FY18


Source: DART, Company

Exhibit 5: R&D at ₹ 169mn in Q4FY18


Source: DART, Company

Exhibit 6: NPM at 30% during the quarter


Source: DART, Company

Exhibit 7: Segmental Revenue

Segmental Sales	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	FY17	FY18	FY19E	FY20E
CRAMS	615	838	917	1,170	1,237	2,619	4,162	4,330	5,130
% of sales	35.1	60.1	88.1	112.4	118.9	48.6	67.8	67.9	70.7
YoY (%)	(15.9)	22.7	58.7	57.3	101.4	14.0	58.9	4.0	18.5
Specialty chem	1,016	403	52	366	719	2,240	1,541	1,541	1,541
% of sales	58.1	28.9	5.0	35.2	69.1	41.6	25.1	24.2	21.2
YoY (%)	15.2	(24.4)	(87.7)	36.9	(29.2)	0.1	(31.2)	0.0	0.0
CTS	120	154	72	88	126	532	440	506	582
% of sales	6.8	11.0	6.9	8.5	12.1	9.9	7.2	7.9	8.0
YoY (%)	47.3	35.7	(54.1)	(38.2)	5.7	14.9	(17.3)	15.0	15.0
Total	1,750	1,395	1,041	1,624	2,083	5,392	6,143	6,377	7,253
YoY (%)	3.3	4.9	(10.1)	40.8	19.0	7.9	13.9	3.8	13.7

Source: DART, Company

Income Statement (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Net Sales	5,435	6,253	6,377	7,253
Growth (%)	8.8	15.0	2.0	13.7
Total Expenditure	4,145	4,271	4,418	4,798
Raw material consumed	1,548	1,749	1,499	1,813
Purchase of finished goods	0	0	48	55
Decrease/(Inc.) in stocks	(30)	(212)	(30)	(212)
Employee benefit expenses	522	613	613	756
Selling & Distribution Exp.	75	86	86	98
Administrative expenses	232	251	256	326
R&D Expenses	991	902	1,116	762
Other operating expenses	806	882	830	1,201
EBIDTA (Excl. OI)	1,291	1,982	1,960	2,455
EBIDTA (Incl. OI)	1,502	2,214	2,195	2,694
Other Income	211	233	236	239
Interest	57	46	59	74
Depreciation	214	213	232	254
Profit Before Tax	1,231	1,955	1,904	2,367
Tax	359	718	628	781
Reported Net Profit	872	1,237	1,276	1,586
Growth (%)	21.2	41.8	3.2	24.3

Balance Sheet (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Sources of Funds				
Equity Capital	127	127	127	127
Reserves	6,543	7,547	8,315	9,425
Net Worth	6,670	7,674	8,442	9,552
Secured Loans	259	14	11	9
Unsecured Loans	449	249	249	249
Loan Funds	708	263	261	258
Deferred Tax Liability	(19)	232	256	281
Total Capital Employed	7,359	8,170	8,958	10,092
Applications of Funds				
Net Block	3,057	3,077	3,866	4,112
Capital Work in Progress	97	247	100	100
Inventories	925	1,395	912	1,061
Sundry Debtors	458	615	559	636
Cash and Bank Balance	92	208	1,009	1,729
Loans and Advances	435	770	582	661
Other Current Assets	64	34	35	39
<i>sub total</i>	1,974	3,023	3,097	4,127
Less: Current Liabilities & Provisions				
Current Liabilities	708	881	855	992
Provisions	72	84	38	43
<i>sub total</i>	779	966	892	1,035
Net Current Assets	1,195	2,057	2,205	3,092
Total Assets	7,359	8,170	8,958	10,092

E – Estimates

Cash Flow (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Profit before tax	1,231	1,955	1,904	2,367
Depreciation	214	213	232	254
Change in working capital	82	(750)	605	(174)
Total tax paid	(328)	(467)	(605)	(755)
Others	57	46	59	74
Cash flow from oper. (a)	1,256	998	2,195	1,765
Capital expenditure	(239)	(238)	(998)	(500)
FCFF	1,016	760	1,197	1,265
Change in investments	(3,008)	222	0	0
Others	0	0	0	0
Cash flow from inv. (b)	(3,248)	(16)	(998)	(500)
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	(118)	(445)	(3)	(2)
Dividend (incl. tax)	(153)	(371)	(334)	(469)
Others	(59)	(49)	(59)	(74)
Cash flow from fin. (c)	(330)	(865)	(396)	(545)
Net chg in cash (a+b+c)	(2,322)	117	801	720

Important Ratios (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	23.7	31.7	30.7	33.9
Interest / Sales	1.0	0.7	0.9	1.0
Tax/PBT	29.2	36.7	33.0	33.0
Net Profit Margin	16.0	19.8	20.0	21.9
(B) As Percentage of Net Sales				
Raw material consumed	28.5	28.0	23.5	25.0
Purchase of finished goods	0.0	0.0	0.8	0.8
Decr/(Incr) in stocks	(0.5)	(3.4)	(0.5)	(2.9)
Employee benefit expenses	9.6	9.8	9.6	10.4
Selling & Distribution exp	1.4	1.4	1.3	1.3
Administrative expenses	4.3	4.0	4.0	4.5
Other operating expenses	14.8	14.1	13.0	16.6
(C) Measures of Financial Status				
Debt / Equity (x)	0.1	0.0	0.0	0.0
Interest Coverage (x)	22.7	43.2	33.4	33.1
Average Cost of Debt (%)	7.4	9.5	22.4	28.4
Debtors Period (days)	30.8	35.9	32.0	32.0
Closing stock (days)	62.1	81.4	52.2	53.4
Inventory Turnover Ratio (x)	5.9	4.5	7.0	6.8
Fixed Assets Turnover (x)	1.7	1.9	1.7	1.8
WC Turnover (x)	4.5	3.0	2.9	2.3
(D) Measures of Investment				
EPS (₹)	6.8	9.7	10.0	12.5
CEPS (₹)	8.5	11.4	11.8	14.5
DPS (₹)	1.0	2.4	2.5	3.1
Dividend Payout (%)	14.6	25.0	25.0	25.0
Profit Ploughback (%)	85.4	75.0	75.0	75.0
Book Value (₹)	52.4	59.2	66.2	74.9
RoANW (%)	13.8	17.4	16.0	17.6
RoACE (%)	18.1	25.6	22.8	25.5
(E) Valuation Ratios				
CMP (₹)	186	186	186	186
P/E (x)	27.2	19.8	19.2	15.4
Market Cap. (₹ mn)	23,731.8	23,731.8	23,731.8	23,731.8
MCap/ Sales (x)	4.4	3.8	3.7	3.3
EV (₹ mn)	24,348.0	23,786.8	23,689.6	22,967.7
EV/Sales (x)	4.5	3.8	3.7	3.2
EV/EBDITA (x)	18.9	12.4	12.1	9.4
P/BV (x)	3.6	3.2	2.9	2.6
FCFE Yield (%)	3.8	1.3	4.9	5.2
Dividend Yield (%)	0.5	1.3	1.3	1.6

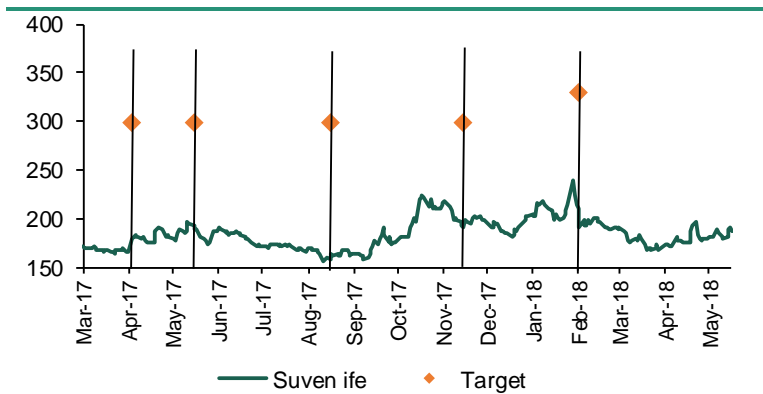
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Apr-17	Buy	300	179
May-17	Buy	300	192
Aug-17	Buy	300	163
Nov-17	Buy	300	191
Feb-18	Buy	330	214

* As on Recommendation Date

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