

Demerger in FY20

The quarterly results were adversely affected by a lower commercial contribution (₹ 200mn in Q3 and ₹ 380mn in 9M). Both CRAMS and specialty chemicals declined 27% YoY each. The company, however, is confident of a better performance from Q4FY19 onwards. The management expects commercial revenue to be in the range of ₹ 1.2-1.5bn in FY20, including deferred income from the year.

Pipeline Status

SUVN 502: Completed the recruitment process last quarter. Top line data expected in July 2019. The company invested USD 5mn in 9M and USD 20mn so far. **SUVN 3031:** Phase II clinical trial will be initiated in Q1FY20.

SUVN 911 and SUVN 4041: Both are undergoing toxicology tests. More molecules to go into Phase I by Q1FY20.

Demerger of CRAMS and DDS

Suven Life Sciences (SLS) will consist of DDS and CRAMS will be under a wholly owned subsidiary, Suven Pharma Ltd (SPL). Of the current R&D spend, 70% is for DDS and the rest for CRAMS. The listing of SPL in the stock exchange is expected in 6-9 months, post NCLT approval. The shares will be distributed in a ratio of 1:1. Barring cash of ₹ 3bn (to fund DDS for 3 years) and IP, all other assets, together with manufacturing capabilities, will move to SPL. SLS will pay SPL for manufacturing services. We are currently working on the impact of the merger and thus have not factored that in our estimates.

View

Although, we have not factored the demerger, we believe it is a positive development and will unlock the margin potential of CRAMS. We expect the company's results to be muted at the end of this fiscal year, given pressure on CRAMS. However, FY20 has the potential to be a turnaround year with a higher commercial revenue, coupled with SUVN 502 data (if in favour). We roll over to the FY21E EPS of ₹ 13, leading to TP of ₹ 315 (15x FY21E EPS and upfront payments and NCE driven revenue).

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	1,290	1,637	(21.2)	895	44.1
Total Expense	934	1,123	(16.8)	651	43.5
EBITDA	356	514	(30.7)	244	45.8
Depreciation	56	54	3.6	56	0.9
EBIT	300	460	(34.8)	189	59.0
Other Income	58	33	75.2	66	(12.5)
Interest	5	12	(54.0)	6	(10.4)
EBT	352	481	(34.8)	248	41.7
Tax	100	135	(26.1)	68	46.0
RPAT	252	346	(27.1)	180	40.1
APAT	252	346	(27.1)	180	40.1
			(bps)		(bps)
Gross Margin (%)	78.4	69.9	849	93.6	(1512)
EBITDA Margin (%)	27.6	31.4	(381)	27.3	32
NPM (%)	19.6	21.1	(158)	20.1	(56)
Tax Rate (%)	28.4	28.1	27	27.5	83
EBIT Margin (%)	23.2	28.1	(485)	21.1	218

CMP	₹ 230
Target / Upside	₹ 315 / 37%
BSE Sensex	36,971
NSE Nifty	11,069

Scrip Details

Equity / FV	₹ 127mn / ₹ 1
Market Cap	₹ 29bn
	US\$ 409mn
52-week High/Low	₹ 338/₹ 161
Avg. Volume (no)	298,765
NSE Symbol	SUVEN
Bloomberg Code	SVLS IN

Shareholding Pattern Dec'18(%)

Promoters	60.0
MF/Banks/FIs	1.7
FII	6.1
Public / Others	32.2

Valuation (x)

	FY19E	FY20E	FY21E
P/E	26.2	21.1	17.6
EV/EBITDA	15.7	12.1	9.8
ROE (%)	13.8	15.3	16.3
RoACE (%)	13.3	15.0	16.1

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	5,680	6,496	7,323
EBITDA	1,692	2,192	2,643
PAT	1,115	1,387	1,664
EPS (₹)	8.8	10.9	13.1

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Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	6,253	5,680	6,496	7,323
Total Expense	4,271	3,988	4,304	4,681
COGS	1,537	1,390	1,574	1,728
Employees Cost	613	546	677	726
Other expenses	2,121	2,051	2,053	2,226
EBIDTA	1,982	1,692	2,192	2,643
Depreciation	213	226	296	353
EBIT	1,769	1,466	1,896	2,290
Interest	46	30	55	66
Other Income	233	216	214	242
Exc. / E.O. items	0	0	0	0
EBT	1,955	1,651	2,055	2,466
Tax	718	537	668	801
RPAT	1,237	1,115	1,387	1,664
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,237	1,115	1,387	1,664

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	127	127	127	127
Minority Interest	0	0	0	0
Reserves & Surplus	7,547	8,411	9,466	10,731
Net Worth	7,674	8,539	9,593	10,858
Total Debt	275	261	258	257
Net Deferred Tax Liability	232	256	281	309
Total Capital Employed	8,182	9,055	10,133	11,424

Applications of Funds

Net Block	3,077	4,351	5,355	5,925
CWIP	247	150	150	150
Investments	1	1	1	1
Current Assets, Loans & Advances	5,807	5,368	5,610	6,371
Inventories	1,395	1,392	1,424	1,511
Receivables	615	498	569	642
Cash and Bank Balances	208	141	202	723
Loans and Advances	770	518	592	668
Other Current Assets	31	31	35	40
Less: Current Liabilities & Provisions	951	815	983	1,023
Payables	568	457	575	564
Other Current Liabilities	383	358	408	459
Net Current Assets	4,856	4,553	4,627	5,348
Total Assets	8,182	9,055	10,133	11,424

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	75.4	75.5	75.8	76.4
EBIDTA Margin	31.7	29.8	33.7	36.1
EBIT Margin	28.3	25.8	29.2	31.3
Tax rate	36.7	32.5	32.5	32.5
Net Profit Margin	19.8	19.6	21.4	22.7
(B) As Percentage of Net Sales (%)				
COGS	24.6	24.5	24.2	23.6
Employee	9.8	9.6	10.4	9.9
Other	33.9	36.1	31.6	30.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	38.2	48.1	34.6	34.7
Inventory days	81	89	80	75
Debtors days	36	32	32	32
Average Cost of Debt	9.4	11.4	21.1	25.7
Payable days	49	42	49	44
Working Capital days	283	293	260	267
FA T/O	2.0	1.3	1.2	1.2
(D) Measures of Investment				
AEPS (₹)	9.7	8.8	10.9	13.1
CEPS (₹)	11.4	10.6	13.3	15.9
DPS (₹)	1.8	2.1	2.6	3.1
Dividend Payout (%)	18.6	24.0	24.0	24.0
BVPS (₹)	60.4	67.2	75.5	85.5
RoANW (%)	17.2	13.8	15.3	16.3
RoACE (%)	16.5	13.3	15.0	16.1
RoAIC (%)	23.2	17.4	20.1	22.2
(E) Valuation Ratios				
CMP (₹)	230	230	230	230
P/E	23.6	26.2	21.1	17.6
Mcap (₹ Mn)	29,210	29,210	29,210	29,210
MCap/ Sales	4.7	5.1	4.5	4.0
EV	26,490	26,542	26,479	25,956
EV/Sales	4.2	4.7	4.1	3.5
EV/EBITDA	13.4	15.7	12.1	9.8
P/BV	3.8	3.4	3.0	2.7
Dividend Yield (%)	0.8	0.9	1.1	1.4
(F) Growth Rate (%)				
Revenue	15.0	(9.2)	14.4	12.7
EBITDA	53.6	(14.6)	29.6	20.6
EBIT	64.3	(17.1)	29.3	20.8
PBT	58.9	(15.5)	24.5	19.9
APAT	41.9	(9.9)	24.5	19.9
EPS	41.9	(9.9)	24.5	19.9

Cash Flow

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	986	1,630	1,751	1,911
CFI	159	1,385	1,300	923
CFF	711	313	390	467
FCFF	827	245	451	988
Opening Cash	92	208	141	202
Closing Cash	208	141	202	723

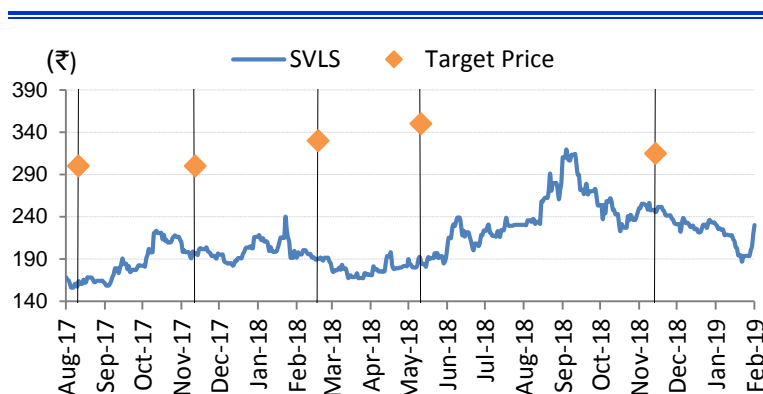
E – Estimates

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 (₹)
Aug-17	Buy	300	164
Nov-17	Buy	300	197
Feb-18	Buy	330	190
May-18	Buy	350	187
Nov-18	Buy	315	245

*Price as on recommendation date

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