

## BUY

### Soft 2Q, growth outlook remains intact

Suven Pharma reported soft 2Q. Revenues declined 13% YoY (flattish QoQ) with EBITDA margins at 41% (down 500bps YoY and 600bps QoQ). Lower revenues from specialty chemicals segment impacted margins. Further, lower profit share from Rising Pharma also impacted profits (down 20% YoY and QoQ). Nonetheless, management reiterated its guidance of 15% growth in top-line and 15-20% growth in bottom-line with EBITDA margins at 40%+ for FY21. This implies a robust 2H. Suven is on track in launching molecules (two in specialty chemicals over FY21-22 and one in pharma) in CDMO and 2 launches in formulations (six pending approval, another five being developed) towards end of FY21.

Suven has almost completed its capex of Rs3.2bn (spread over FY19-21). Newer capacity expansion for specialty chemicals shall start contributing from FY22 onwards. Further, we are not perturbed by the new capex announcement of Rs6bn largely for facility upgradation and technology enhancement. We believe the company shall follow its prudent policy of funding the capex through internal accruals (has the capability to generate ~Rs3bn FCF p.a.). While this capex plan may restrict FCF generation for a couple of years, we remain constructive on the strong execution capability and focussed approach in the long run.

**Traction in its CDMO business and steady formulation launches would drive 17% CAGR in sales/earnings over FY21-23E. At the CMP, the stock trades at 17x and 14.6x of FY22/23E earnings respectively. We value the company on a DCF (11% WACC, 5% terminal growth) and arrive at target price of Rs462. Maintain Buy.**

### Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	2,374	2,729	(13.0)	2,382	(0.4)
Total Expense	1,389	1,474	(5.7)	1,262	10.1
EBITDA	985	1,256	(21.6)	1,121	(12.1)
Depreciation	75	56	33.4	71	6.2
EBIT	910	1,200	(24.1)	1,050	(13.4)
Other Income	4	54	(93.4)	57	(93.8)
Interest	33	44	(26.2)	32	1.8
EBT	881	1,210	(27.2)	1,076	(18.1)
Tax	228	315	(27.7)	263	(13.6)
RPAT	741	930	(20.3)	915	(19.1)
APAT	741	930	(20.3)	915	(19.1)
			(bps)		(bps)
Gross Margin (%)	69.0	66.6	235	70.3	(132)
EBITDA Margin (%)	41.5	46.0	(452)	47.0	(556)
NPM (%)	31.2	34.1	(287)	38.4	(721)
Tax Rate (%)	25.8	26.0	(19)	24.5	134
EBIT Margin (%)	38.3	43.9	(562)	44.1	(575)

CMP	Rs 314
Target / Upside	Rs 462 / 47%
NIFTY	11,642

### Scrip Details

Equity / FV	Rs 255mn / Rs 1
Market Cap	Rs 80bn
	USD 1bn
52-week High/Low	Rs 825/ 175
Avg. Volume (no)	398,211
Bloom Code	SUVENPHAR IN

### Price Performance

	1M	3M	12M
Absolute (%)	(17)	(1)	
Rel to NIFTY (%)	(22)	(6)	

### Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	60.0	60.0	60.0
MF/Banks/FIs	8.2	8.2	9.1
FII	0.0	0.0	0.0
Public / Others	31.8	31.8	30.9

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	21.1	17.8	15.3
EV/EBITDA	17.5	14.5	11.9
ROE (%)	38.5	35.4	33.2
RoACE (%)	28.1	28.2	28.2

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	9,812	11,473	13,406
EBITDA	4,547	5,366	6,314
PAT	3,797	4,480	5,230
EPS (Rs.)	14.9	17.6	20.5

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## Exhibit 1: Revenue Mix

(Rs mn)	2QFY20	2QFY21	YoY (%)	1QFY21	QoQ%	1HFY20	1HFY21	YoY (%)	FY20	FY21E	YoY (%)
Pharma CRAMS	2,068	1,442	(30.3)	1,249	15.4	2,986	2,691	(9.9)	4,680	5,242	12.0
Specialty CRAMS	543	682	25.6	935	(27.0)	1,548	1,617	4.5	3,040	3,587	18.0
Formulations & Others	365	250	(31.5)	198	26.0	199	448	125.2	700	805	15.0
Total	2,976	2,374	(20.2)	2,382	(0.4)	4,733	4,756	0.5	8,420	9,634	14.4

Source: Company, DART

## Concall highlights

- **Guidance:** Management reiterated its guidance of 15-20% growth both in top-line and bottom-line with EBITDA margins at 40%+ for FY21. Queries w.r.t. business/projects has increased since past quarter and company has added 1 new customer in the past 6 months. Profit share w.r.t Rising Pharma can be at the lower end of guidance between Rs400-650mn.
- **Pharma CRAMS:** With increased enquiries for base CRAMS, we believe both the base as well as commercial CRAMS segment did well in 2Q, up 15% QoQ. However, the segment de-grew 30% YoY on a higher base. Currently Suven supplies 4 commercialized molecules. From the current pipeline, management indicated that 1 molecule has moved in phase 3.
- **Specialty CRAMS:** The company supplies intermediates for two molecules and is on track to commercialize one more molecule in 2HFY21. Company has sufficient capacity to meet additional demand in specialty CRAMS and can add additional blocks if required.
- **Generic formulations:** Formulations recorded Rs100mn revenue in 2Q vs Rs40mn in 1QFY21. Company also booked royalty of Rs20mn in 2Q. Suven currently has 3 products commercialized with royalty/profit sharing clause. Profit shares comes with a lag and hence 2HFY21 should see better growth. Additionally, management guided for 2 new launches along with 3-4 filings in 2HFY21. In FY22 it plans to launch 3-4 products.
- **Capex:** Company has taken an enabling resolution from the board for a capex of Rs6bn large part of which shall be utilized in facility upgradation, technology enhancement and relocation spread over 3 years. Management is yet to furnish details of the plan. This will be over and above the current ongoing capex of Rs3.2bn (started in FY19-21) which should be completed by FY21.
  - As part of the upgradation plan, Suven plans to refurbish its 3-decade old block at Suryapet. The new block shall be ~2-3x vs existing block (huge maintenance expense incurred currently).
  - Further, as per the new policy of Telangana government, its Jeedimetla plant will have to be relocated outside the city.
  - An additional block will be created at Pashamylaram in order to cater to higher demand.
  - As per the capacity expansion is concerned, Suven has spent Rs1.1bn on creating a multi-purpose facility at Vizag which shall largely be utilized for specialty chemicals. Its Vizag facility is expected to be commercialized by end of FY21, validation batches to start from 3Q.
- **Other highlights:** Looking to hire a professional CEO to run the day to day affairs

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>8,338</b>	<b>9,812</b>	<b>11,473</b>	<b>13,406</b>
<b>Total Expense</b>	<b>4,487</b>	<b>5,265</b>	<b>6,107</b>	<b>7,092</b>
COGS	2,292	2,783	3,192	3,620
Employees Cost	737	769	900	1,053
Other expenses	1,458	1,714	2,015	2,418
<b>EBIDTA</b>	<b>3,851</b>	<b>4,547</b>	<b>5,366</b>	<b>6,314</b>
Depreciation	239	301	358	403
<b>EBIT</b>	<b>3,612</b>	<b>4,245</b>	<b>5,008</b>	<b>5,911</b>
Interest	231	92	0	0
Other Income	181	124	97	86
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>3,563</b>	<b>4,277</b>	<b>5,105</b>	<b>5,997</b>
Tax	875	1,011	1,208	1,420
RPAT	3,170	3,797	4,480	5,230
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>482</b>	<b>530</b>	<b>583</b>	<b>653</b>
<b>APAT</b>	<b>3,170</b>	<b>3,797</b>	<b>4,480</b>	<b>5,230</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	127	255	255	255
Minority Interest	0	0	0	0
Reserves & Surplus	8,320	11,009	13,775	17,262
<b>Net Worth</b>	<b>8,448</b>	<b>11,263</b>	<b>14,029</b>	<b>17,517</b>
Total Debt	1,862	1,452	0	0
Net Deferred Tax Liability	437	439	442	445
<b>Total Capital Employed</b>	<b>10,747</b>	<b>13,155</b>	<b>14,471</b>	<b>17,962</b>

**Applications of Funds**

Net Block	4,576	5,456	6,177	6,637
CWIP	0	0	0	0
Investments	3,235	3,235	3,235	3,235
<b>Current Assets, Loans &amp; Advances</b>	<b>3,917</b>	<b>5,517</b>	<b>6,249</b>	<b>9,423</b>
Inventories	1,749	1,967	2,217	2,506
Receivables	1,172	1,320	1,483	1,699
Cash and Bank Balances	141	1,340	1,620	4,220
Loans and Advances	3	3	3	4
Other Current Assets	546	581	618	687
<b>Less: Current Liabilities &amp; Provisions</b>	<b>982</b>	<b>1,054</b>	<b>1,190</b>	<b>1,333</b>
Payables	711	742	831	919
Other Current Liabilities	271	313	359	414
	<i>sub total</i>			
Net Current Assets	2,935	4,463	5,059	8,090
<b>Total Assets</b>	<b>10,747</b>	<b>13,155</b>	<b>14,471</b>	<b>17,962</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	72.5	71.6	72.2	73.0
EBIDTA Margin	46.2	46.3	46.8	47.1
EBIT Margin	43.3	43.3	43.7	44.1
Tax rate	24.6	23.6	23.7	23.7
Net Profit Margin	38.0	38.7	39.1	39.0
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	27.5	28.4	27.8	27.0
Employee	8.8	7.8	7.8	7.9
Other	17.5	17.5	17.6	18.0
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.2	0.1	0.0	0.0
Interest Coverage	15.7	46.0		
Inventory days	77	73	71	68
Debtors days	51	49	47	46
Average Cost of Debt	17.1	5.6	0.0	
Payable days	31	28	26	25
Working Capital days	129	166	161	220
FA T/O	1.8	1.8	1.9	2.0
<b>(D) Measures of Investment</b>				
AEPS (Rs)	12.5	14.9	17.6	20.5
CEPS (Rs)	13.4	16.1	19.0	22.1
DPS (Rs)	3.0	6.0	6.0	6.0
Dividend Payout (%)	24.2	40.2	34.1	29.2
BVPS (Rs)	33.2	44.2	55.1	68.8
RoANW (%)	44.2	38.5	35.4	33.2
RoACE (%)	32.7	28.1	28.2	28.2
RoAIC (%)	41.1	37.9	40.6	44.5
<b>(E) Valuation Ratios</b>				
CMP (Rs)	314	314	314	314
P/E	25.2	21.1	17.8	15.3
Mcap (Rs Mn)	79,959	79,959	79,959	79,959
MCap/ Sales	9.6	8.1	7.0	6.0
EV	81,373	79,764	78,032	75,432
EV/Sales	9.8	8.1	6.8	5.6
EV/EBITDA	21.1	17.5	14.5	11.9
P/BV	9.5	7.1	5.7	4.6
Dividend Yield (%)	1.0	1.9	1.9	1.9
<b>(F) Growth Rate (%)</b>				
Revenue	120.7	17.7	16.9	16.9
EBITDA	124.5	18.1	18.0	17.7
EBIT	125.7	17.5	18.0	18.0
PBT	125.7	20.0	19.4	17.5
APAT	190.1	19.8	18.0	16.7
EPS	190.1	19.8	18.0	16.7

**Cash Flow**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	3,639	3,270	3,878	4,484
CFI	(4,288)	(1,118)	(1,015)	(796)
CFF	660	(953)	(2,583)	(1,089)
FCFF	(649)	2,152	2,864	3,688
Opening Cash	129	141	1,340	1,620
Closing Cash	141	1,340	1,620	4,220

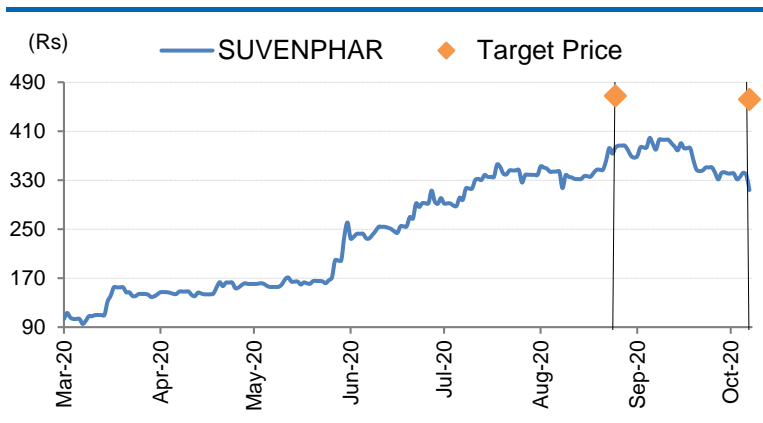
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Sep-20	Buy	468	384
Oct-20	BUY	462	314

\*Price as on recommendation date

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