



Decent performance despite margin pressure...

About the stock: Suven Pharma is a CDMO that supports global life sciences industry & fine chemical majors in their NCE development endeavours. Its services include custom synthesis, process R&D, scale-up & contract manufacturing.

- Business comprises three segments – CDMO (development projects and commercial supplies), specialty chemicals and contract technical service
- CDMO vertical contributes more than 62% of its topline. Owing to its CDMO competence, it has developed & supplies intermediates for two specialty chemical products (agrochemical) to large global conglomerates

Q1FY22 Results: Suven reported strong Q1FY22 results.

- Sales were up 10.7% YoY to ₹ 263.8 crore
- EBITDA in Q1FY22 was at ₹ 114.6 crore, up 2.3% YoY with margins at 43.4%
- Consequent adjusted PAT was at ₹ 105.1 crore (up 14.8% YoY)

What should investors do? Suven's share price has grown by ~1.6x over the past five years (from ~₹ 316 in July 2020 to ~₹ 506 levels in July 2021).

- We retain our BUY rating on this stock

Target Price and Valuation: We value Suven at ₹ 650 with 32x P/E on FY23E EPS

Key triggers for future price performance:

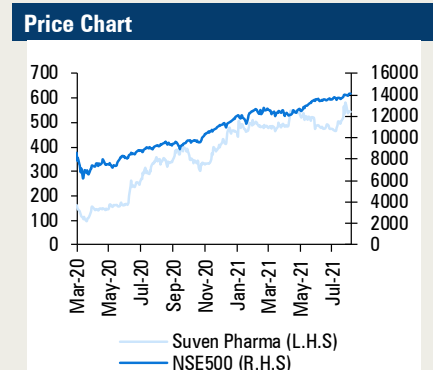
- The company has announced a ₹ 600 crore investment – in upgradation of facilities, absorbing new technology & moving its R&D – executable over a two to three-year horizon, benefits of which may be visible in the long run
- Formulations have registered healthy growth due to increased commercial basket & have a pipeline of six ANDAs in FY22, enhancing growth levers
- Focus on research by global innovators has intensified post Covid & augurs well for pharma CRAMS operations, which remain a key growth driver

Alternate Stock Idea: Apart from Suven, in our healthcare coverage we like Divis.

- Divi's is engaged in manufacturing generic APIs and intermediates, custom synthesis of active ingredients and advanced intermediates for pharma MNCs
- BUY with a target price of ₹ 4916

Particulars	
Particular	Amount
Market Capitalisation	₹ 13847 crore
Debt (FY21)	₹ 141 crore
Cash (FY21)	₹ 10 crore
EV	₹ 13979 crore
52 week H/L (₹)	590/292
Equity capital	₹ 25.5 crore
Face value	₹ 1

Shareholding pattern					
(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	60.0	60.0	60.0	60.0	60.0
Others	40.0	40.0	40.0	40.0	40.0



- ### Recent Event & Key risks
- Embarking on a ₹ 600 crore investment, largest since inception
 - **Key Risk:** (i) Lumpy nature of business (ii) B2B model with heavy reliance on management guidance

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Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	CAGR (FY20-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Revenues	833.8	1009.7	21.1	1118.0	1284.6	12.8
EBITDA	384.8	442.4	15.0	485.7	587.7	15.3
EBITDA margins (%)	46.1	43.8		43.4	45.8	
Net Profit	317.0	362.3	14.3	426.0	516.7	19.4
EPS (₹)	12.5	14.2		16.7	20.3	
PE (x)	43.7	38.2		32.5	26.8	
EV to EBITDA (x)	36.4	31.2		28.4	23.3	
RoE (%)	37.5	30.7		26.9	24.9	
RoCE (%)	35.6	31.2		26.8	26.5	

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Robust performance

- Q1FY22 revenue grew 10.7% YoY to ₹ 263.8 crore. EBITDA margins declined 360 bps YoY to 43.4%, mainly due to increase in employee and other expenditure. Subsequently, EBITDA grew 2.3% YoY to ₹ 114.6 crore. PAT was up 14.8% YoY to ₹ 105.1 crore. Delta vis-a-vis EBITDA was due to higher profit share from associates
- Suven's quarterly results were in-line with I-direct estimates. Going ahead, the company hopes to achieve 10-15% growth in FY22 based on strong order book position. It has also planned to invest ₹ 600 crore for modernisation, technology upgradation, which likely stems from the need to cater to the changed priorities and requirements of its clients, the benefits of which may be visible in the long run. We continue to emphasise on the strong execution capability and focused approach without the burden of success/failure of the innovative pipeline (now part of Suven Life Sciences)

Q1FY22 Earnings Conference Call highlights

- Despite cost pressure, margins stood firm due to favourable product mix for the quarter
- Q1 saw higher cost for logistics and raw materials with management expecting situation to ease out going forward
- The management expects CRAMS business to grow 10-15%, specialty to grow 5-10% and formulation business to grow 10-15% in FY22
- New capex plans of ₹ 600 crore for three years has been initiated for Phase 1 & Phase 2 plans will start in six months. New technologies: ₹ 50 crore
- Formulations: 30 Filed, seven approved, six launched
- Four to six ANDAs to be filed this financial year
- Five molecules in Phase 3 trials

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY21	Q4FY21	YoY (%)	QoQ (%)	Comments
Revenue	263.8	238.2	259.2	10.7	1.8	YoY growth amid strong growth in CRAMS business albeit on lower base
Raw Material Expenses	76.8	70.7	91.4	8.5	-16.0	
Gross margins (%)	70.9	70.3	64.7	60.3	615.7	Decline mainly due to ~20% increase in raw material cost
Employee Expenses	21.2	17.4	16.5	21.3	28.1	
Other Expenditure	51.3	38.0	57.6	35.1	-11.0	Increased mainly due to higher logistic cost
EBITDA	114.6	112.1	93.7	2.3	22.3	
EBITDA (%)	43.4	47.0	36.2	-360.2	729.4	Decline amid higher raw material and logistic cost
Interest	2.1	3.2	1.9	-33.7	13.6	
Depreciation	9.0	7.1	8.3	27.3	8.2	
Other Income	5.8	5.7	3.3	0.8	75.3	
PBT before EO & Forex	109.3	107.6	86.8	1.6	25.9	
Forex & EO	0.0	0.0	0.0			
Profit from Associates	23.6	10.3	18.7	129.2	26.7	
PBT	132.9	117.9	105.5	12.8	26.0	
Tax	27.8	26.3	22.4	5.7	24.5	
Net Profit	105.1	91.5	83.1	14.8	26.4	Delta vis-à-vis EBITDA amid higher depreciation, tax rate and lower other income
Key Metrics						
CRAMS - Pharma	153.4	124.9	137.7	22.8	11.4	
CRAMS - Spec Chem	84.9	93.5	109.4	-9.2	-22.4	YoY, QoQ degrowth due to genericisation of one old molecule
Formulations & Others	24.5	19.8	12.1	23.7	103.1	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E		
	Old	New	% Change	Old	New	% Change
Revenue	1,127.5	1,118.0	-0.8	1,296.6	1,284.6	-0.9
EBITDA	510.2	485.7	-4.8	593.2	587.7	-0.9
EBITDA Margin (%)	45.3	43.4	-180 bps	45.8	45.8	0 bps
PAT	444.8	426.0	-4.2	509.6	516.7	1.4
EPS (₹)	17.5	16.7	-4.2	20.0	20.3	1.4

Source: ICICI Direct Research

Exhibit 3: Assumptions

(₹ crore)	Current				Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
CRAMS - Pharma	468.4	623.7	697.7	802.4	706.7	812.7	Changed as per guidance
CRAMS - Spec Chem	304.2	305.9	326.1	375.0	325.3	374.1	Changed as per guidance and lower-than-expected growth in Q1FY22
Formulations & Others	74.6	80.2	93.2	107.2	95.5	109.8	

Source: ICICI Direct Research

Exhibit 4: ICICI Direct Coverage Universe (Healthcare)

Company	I-Direct Code	CMP (₹)	TP Rating	M Cap (₹ cr)	EPS (₹)				PE(x)				RoCE (%)			RoE (%)					
					FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	
Ajanta Pharma	AJAPHA	2234	2,695	Buy	19332	53.4	74.0	80.8	89.8	41.9	30.2	27.6	24.9	24.7	29.0	24.9	24.0	18.1	21.8	20.2	19.2
Alembic Pharma	ALEMPHA	770	885	Hold	15140	44.4	59.9	35.2	44.3	17.3	12.9	21.9	17.4	21.0	24.2	12.7	14.8	27.1	23.0	12.3	13.8
Apollo Hospitals	APOHOS	4304	4,510	Hold	61886	22.6	7.9	60.4	76.8	190.6	547.6	71.3	56.0	10.2	6.3	15.5	18.2	9.7	2.5	15.8	17.2
Aurobindo Pharma	AURPHA	741	865	Hold	43424	48.8	55.0	54.2	61.8	15.2	13.5	13.7	12.0	17.2	16.8	14.4	15.1	17.0	14.7	12.7	12.8
Biocon	BIOCON	367	400	Hold	43986	5.8	6.1	6.1	12.5	63.0	60.2	59.9	29.2	10.2	7.6	8.7	12.5	10.4	9.6	8.9	15.6
Cadila Healthcare	CADHEA	532	583	Hold	54463	14.0	21.5	20.8	22.0	38.1	24.8	25.5	24.2	10.7	12.6	13.1	12.9	13.8	16.9	12.6	12.1
Cipla	CIPLA	890	1,205	Buy	71783	19.2	29.9	35.5	41.6	46.3	29.8	25.1	21.4	12.0	16.3	17.9	18.4	9.8	13.1	14.0	14.5
Divi's Lab	DIVLAB	4900	5,815	Buy	130081	51.9	74.7	94.7	116.3	94.5	65.6	51.8	42.1	23.9	27.6	28.8	29.2	18.8	21.3	22.5	23.0
Dr Reddy's Labs	DRREDD	4672	5,250	Hold	77727	121.8	117.3	126.8	197.3	38.4	39.8	36.8	23.7	9.6	13.1	12.9	16.5	13.0	11.1	10.8	14.7
Glenmark Pharma	GLEPHA	575	680	Buy	16225	26.4	32.9	35.6	47.9	21.8	17.5	16.1	12.0	12.7	13.7	15.9	17.0	12.2	13.1	11.9	13.8
Hikal	HIKCHE	676	590	Hold	8339	8.1	10.8	16.5	19.6	83.5	62.6	41.0	34.4	12.8	15.1	17.2	18.4	12.2	14.3	18.1	17.9
Ipca Laboratories	IPCLAB	2408	2,560	Buy	30552	47.6	89.9	88.2	102.4	50.6	26.8	27.3	23.5	17.6	27.1	22.2	21.5	16.6	24.2	19.3	18.4
Jubilant Pharmova	JUBLIF	632	850	Buy	10067	44.6	37.4	59.9	84.9	14.2	16.9	10.6	7.4	11.7	13.7	18.2	22.4	12.7	12.6	16.9	19.5
Lupin	LUPIN	969	1,025	Hold	43983	-12.7	26.9	40.0	44.6	NA	36.1	24.2	21.7	9.7	9.0	12.6	13.2	-4.6	8.8	11.8	11.9
Narayana Hrudalaya	NARHRU	500	620	Buy	10222	6.4	-0.7	12.3	15.6	78.8	NA	40.6	32.1	11.0	1.2	14.5	16.8	11.4	-1.3	18.6	19.3
Natco Pharma	NATPHA	994	1,040	Hold	18130	25.3	24.2	19.4	22.6	39.3	41.1	51.3	44.0	14.0	13.1	9.7	10.9	12.2	10.7	8.1	8.8
Sun Pharma	SUNPHA	780	800	Hold	187208	16.8	30.0	25.1	28.6	46.5	26.0	31.0	27.3	10.0	14.4	15.1	15.3	8.9	15.5	12.0	12.2
Syngene Int.	SYNINT	627	780	Buy	25086	10.3	10.1	11.0	15.6	60.9	62.0	56.9	40.3	14.5	11.5	13.1	16.6	16.8	13.5	13.6	16.1
Torrent Pharma	TORPHA	2925	3,250	Buy	49503	60.6	74.0	78.5	101.5	48.3	39.5	37.2	28.8	15.4	17.7	20.8	22.2	21.2	21.4	19.4	21.1
Shalby	SHALIM	190	210	Hold	2229	2.6	3.9	4.8	5.3	74.3	48.4	39.3	35.5	7.2	6.5	8.3	8.2	3.5	5.1	6.0	6.3
Aster DM	ASTDM	164	200	Buy	8217	5.7	3.0	10.8	15.0	28.8	55.5	15.2	10.9	7.2	5.4	9.2	11.1	8.7	4.4	13.8	16.1
Indoco Remedies	INDREM	476	575	Buy	3945	2.6	10.1	16.7	23.9	182.0	47.1	28.4	19.9	4.6	11.8	19.4	21.8	3.5	12.1	17.1	20.2
Caplin Point	CAPPOI	823	1,135	Buy	6756	28.4	32.0	40.8	47.4	29.0	25.7	20.2	17.4	26.5	25.4	26.1	25.6	22.7	20.4	21.1	20.0
Granules India	GRANUL	353	430	Buy	9741	12.4	22.2	23.6	28.7	28.4	15.9	15.0	12.3	15.2	24.0	23.4	24.2	16.7	25.3	21.5	21.0
Laurus Labs	LAULAB	700	785	Buy	34493	4.8	18.3	22.6	28.0	147.1	38.2	31.0	25.0	13.0	31.7	30.6	30.6	14.4	37.9	32.9	29.8

Source: ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Revenues	833.8	1,009.7	1,118.0	1,284.6
Growth (%)	NA	21.1	10.7	14.9
Raw Material Expenses	229.2	301.9	325.3	378.9
Employee Expenses	65.1	76.2	89.7	93.1
Other Manufacturing Expenses	154.7	189.1	217.3	224.8
Total Operating Expenditure	449.0	567.3	632.3	696.9
EBITDA	384.8	442.4	485.7	587.7
Growth (%)	124.3	15.0	9.8	21.0
Interest	23.1	11.1	8.5	8.5
Depreciation	23.5	31.6	36.0	53.6
Other Income	18.1	14.2	24.5	66.8
PBT before Exceptional Items	356.3	413.9	465.8	592.3
Less: Forex & Exceptional Items	0.0	0.0	0.0	0.0
PBT	404.5	467.7	538.9	679.8
Total Tax	87.5	105.3	112.9	163.2
PAT before MI	317.0	362.3	426.0	516.7
Minority Interest	0.0	0.0	0.0	0.0
PAT	317.0	362.3	426.0	516.7
Adjusted PAT	317.0	362.3	426.0	516.7
Growth (%)	190.1	14.3	17.6	21.3
EPS	12.5	14.2	16.7	20.3
EPS (Adjusted)	12.5	14.2	16.7	20.3

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	318.1	358.2	426.0	516.7
Add: Depreciation & Amortization	23.7	31.2	36.0	53.6
Net Increase in Current Assets	18.0	-25.5	-39.7	-57.9
Net Increase in Current Liabilities	27.2	15.1	12.0	17.1
Others	5.9	-4.7	0	0
CF from operating activities	415.9	383.4	442.9	538.0
(Inc)/dec in Fixed Assets	-99.3	-110.8	-400.0	-400.0
(Inc)/dec in Investments	-337.2	-200.5	0.0	-100.0
Others	15.4	0.0	2.7	3.0
CF from investing activities	-421.1	-311.3	-397.3	-497.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in sec. Loan	102.5	-42.4	0.0	0.0
Dividend & Dividend Tax	-76.7	-25.5	-23.0	-23.0
Others	-19.41	-8.67	-8.50	-8.50
CF from financing activities	6.4	-76.6	-31.5	-31.5
Net Cash flow	1.2	-4.4	14.1	9.6
Opening Cash	12.9	14.1	9.7	23.8
Closing Cash	14.1	9.7	23.8	33.3
Free Cash Flow	316.7	272.6	42.9	138.0

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	12.7	25.5	25.5	25.5
Reserve and Surplus	832.0	1,155.4	1,558.4	2,052.1
Total Shareholders fund	844.8	1,180.8	1,583.9	2,077.6
Total Debt	185.3	141.2	141.2	141.2
Deferred Tax Liability	27.6	30.9	34.0	37.4
Minority Interest	0.0	0.0	0.0	0.0
Other Non Current Liabilities	8.8	7.4	8.1	8.9
Source of Funds	1,066.5	1,360.4	1,767.3	2,265.2
Gross Block - Fixed Assets	456.7	572.7	672.7	1,072.7
Accumulated Depreciation	99.9	131.5	167.5	221.2
Net Block	356.7	441.2	505.2	851.5
Capital WIP	101.7	96.3	396.3	396.3
Net Fixed Assets	458.4	537.5	901.5	1,247.9
Investments	338.1	541.8	541.8	641.8
Inventory	174.9	201.1	222.6	255.8
Cash	14.1	9.7	23.8	33.3
Debtors	117.2	102.4	113.4	130.3
Loans & Advances & Other CA	0.0	0.0	0.0	0.0
Total Current Assets	361.0	384.2	438.0	505.4
Creditors	71.1	82.9	91.8	105.5
Provisions & Other CL	35.3	31.2	34.3	37.7
Total Current Liabilities	106.3	114.1	126.1	143.2
Net Current Assets	254.6	270.1	311.9	362.2
LT L& A, Other Assets	15.3	11.0	12.1	13.3
Deferred Tax Assets	0.0	0.0	0.0	0.0
Application of Funds	1,066.5	1,360.4	1,767.3	2,265.2

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	12.5	14.2	16.7	20.3
Cash EPS	12.5	13.5	17.2	21.5
BV	33.2	46.4	62.2	81.6
DPS	0.9	2.0	0.9	0.9
Cash Per Share	3.9	5.2	6.6	8.7
Operating Ratios (%)				
Gross Profit margins	72.5	70.1	70.9	70.5
EBITDA margins	46.1	43.8	43.4	45.8
Net Profit margins	38.0	35.9	38.1	40.2
Asset Turnover	1.8	1.8	1.7	1.2
Inventory days	76.6	72.7	72.7	72.7
Debtor days	51.3	37.0	37.0	37.0
Creditor days	31.1	30.0	30.0	30.0
Return Ratios (%)				
RoE	37.5	30.7	26.9	24.9
RoCE	35.6	31.2	26.8	26.5
RoIC	39.3	38.3	38.6	34.3
Valuation Ratios (x)				
P/E	43.7	38.2	32.5	26.8
EV / EBITDA	36.4	31.2	28.4	23.3
EV / Revenues	16.8	13.7	12.3	10.6
Market Cap / Revenues	16.6	13.7	12.4	10.8
Price to Book Value	16.4	11.7	8.7	6.7
Solvency Ratios				
Debt / Equity	0.2	0.1	0.1	0.1
Debt/EBITDA	0.5	0.3	0.3	0.2
Current Ratio	3.3	3.3	3.3	3.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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