



CRAMs propels growth; formulations foray may be margin dilutive...

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

- In FY22, CRAMs Pharma vertical contributed 59% of sales. Besides CRAMs Pharma, Suven has also developed & supplied intermediates/technical for specialty chemicals CRAMs, which accounted for 35% of sales
- Suven is currently on a three pronged investment plan, 1) relocating R&D centre, 2) replacement and upgradation of blocks at Suryapet facility and 3) additional new block in line with FDA regulations at Pashamylaram facility

Q4FY22 Results: Suven reported strong Q4 numbers driven by strong traction in both Spec Chem and Pharma CRAMs.

- Sales were up 40% YoY to ₹ 364 crore
- EBITDA was at ₹ 157 crore, up 68% YoY with margins at 43%
- Consequent PAT was at ₹ 92 crore (up 10% YoY)

What should investors do? Suven's share price has grown by ~3.8x over the past two years (from ~₹ 145 in May 2020 to ~₹ 530 levels in May 2022).

- Maintain **HOLD** as strong CRAMs franchisee notwithstanding, expansion in formulations to bring its own set of challenges.

Target Price and Valuation: Valued at ₹ 555 i.e. 30x P/E on FY24E EPS of ₹ 18.5

Key triggers for future price performance:

- Focus on research by global innovators has intensified post Covid & augurs well for pharma CRAMs operations, which remains a key growth driver
- 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:** 19 ANDAs filed (including two from Casper Pharma) but proposed acquisition of OSD facility of Casper Pharma and subsequent operational performance in ramping up this segment amid various challenges would be a key monitorable

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

- Syngene with years of experience in operating in the niche of CRO/CRM the company is well poised to capitalise on growing opportunities globally.
- BUY with a target price of ₹ 730

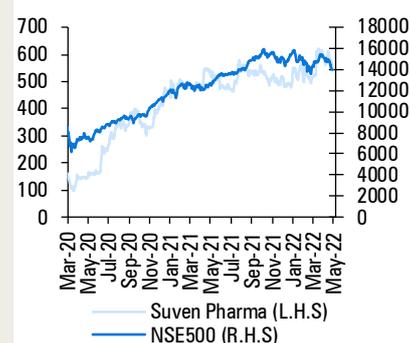
Particulars

Particular	Amount
Market Capitalisation	₹ 13492 crore
Debt (FY22)	₹ 96 crore
Cash (FY22)	₹ 47 crore
EV	₹ 13540 crore
52 week H/L (₹)	631/457
Equity capital	₹ 25.5 crore
Face value	₹ 1

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	60.0	60.0	60.0	60.0
Others	40.0	40.0	40.0	40.0

Price Chart



Recent Event & Key risks

- Acquisition of Casper Pharma
- Key Risk:** (i) Better execution in formulations (ii) B2B model with heavy reliance on guidance

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Key Financial Summary

Key Financials (₹ Crore)	FY20	FY21	FY22	CAGR (FY20-22)	FY23E	FY24E	CAGR (FY22-24E)
Revenues	833.8	1009.7	1320.2	25.8	1443.3	1641.3	11.5
EBITDA	384.8	442.4	579.4	22.7	606.2	668.8	7.4
EBITDA margins (%)	46.1	43.8	43.9		42.0	40.8	
Net Profit	317.0	362.3	453.8	19.6	433.3	472.0	2.0
EPS (₹)	12.5	14.2	17.8		17.0	18.5	
PE (x)	42.6	37.2	29.7		31.1	28.6	
EV to EBITDA (x)	35.4	30.4	22.5		21.3	19.0	
RoE (%)	37.5	30.7	29.7		23.0	20.8	
RoCE (%)	35.6	31.2	37.5		28.5	26.0	

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Margins steady amid CRAMS growth trajectory

- Revenues grew 40% YoY to ₹ 364 crore driven by 52% YoY growth in CRAMS-Pharma to ₹ 209 crore and 25% YoY growth in CRAMS-Spec Chem to ₹ 136 crore. EBITDA margins improved 700 bps YoY to 43% mainly due to higher gross margins (up 492 bps to 70%) and lower other expenditure. EBITDA grew 68% YoY to ₹ 157 crore while PAT was up 10% YoY to ₹ 92 crore. Delta vis-a-vis EBITDA was due to higher tax expense being partially offset by higher other income.
- Suven's quarterly results were better than I-direct estimates on all fronts. Suven posted 24% and 51% growth in FY22 for CRAMS Pharma and Spec Chem, respectively. For Suven, CRAMS-Pharma remain a high-value, high-margin business, involving the supply of intermediates for NCEs and CRAMS-Spec Chem has posted robust growth as supplies of intermediates for two specialty chemical products (agrochemical) and another molecule commercialised by customer ramps up. 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. However, we continue to emphasise on the company's foray into formulations and acquisition of Casper Pharma, a generic OSD formulations company, which is yet to start generating revenues and waiting for USFDA inspection

Q4FY22 Earnings Conference Call highlights

- **CRAMS-Pharma:** Growth likely to be around 15%, going forward, as volumes go up only when molecules move to next phase. Currently, 35 molecules in phase II, five in phase III and five are commercialised
- **CRAMS Specialty Chem:** Suven has three products and one development product. However, old molecules were introduced in combinations by customers and, thus, led to volume growth. The management expects Spec-Chem to post flat revenues in FY23
- Suven Pharma acquired Casper Pharma for US\$20.5 million through internal accruals. Casper Pharma has a formulation facility with capacity of 1.2 billion tablets/capsules in GMR Aviation SEZ, Hyderabad. Casper is yet to commence commercially viable operations and USFDA inspection is expected in H1FY23
- **Formulations:** Suven ANDAs (filed:17, approved: nine, launched: eight, FY23E filings: seven to eight); Casper ANDAs (filed: two, FY23E filings:15). The management is awaiting USFDA inspection for Casper filings. It has guided for 25% EBITDA margins for US formulations business. In formulations, technical sales account for less than 10%revenues
- Gross margins are largely dependent on product mix as the input cost has not come down from previous quarters level. The company is guiding for 40%+ EBITDA margins, going forward
- The management aspires to deliver forward integrated services to its customers in two to three years
- Capex guidance for FY23: ₹ 250 crore. Suryapet facility work to begin and most of the spend will be incurred this year. R&D centre relocation work has not started yet while Pashamylaram facility block to start in three to four months
- ETR for FY23 at 25%. FY22 tax expense was higher due to dividend income

Exhibit 1: Variance Analysis

	Q4FY22	Q4FY21	Q3FY22	YoY (%)	QoQ (%)	Comments
Revenue	363.8	259.2	391.6	40.4	-7.1	YoY growth amid strong growth in CRAMS Spec Chem & Pharma business
Raw Material Expenses	110.3	91.4	119.4	20.8	-7.6	
Gross margins (%)	69.7	64.7	69.5	492.5	17.6	YoY improvement amid inventory adjustment of ₹ 20 crore
Employee Expenses	31.1	16.5	25.0	88.5	24.4	YoY increase on back of additional staff and increments
Other Expenditure	65.4	57.6	61.1	13.5	7.0	
EBITDA	157.0	93.7	186.0	67.6	-15.6	
EBITDA (%)	43.2	36.2	47.5	700.5	-434.9	YoY improvement mainly due to lower margins in base of Q4FY21
Interest	2.2	1.9	0.7	17.0	195.1	
Depreciation	10.4	8.3	10.5	25.3	-0.8	
Other Income	16.9	3.3	64.7	411.5	-73.9	
PBT before EO & Forex	161.3	86.8	239.5	85.8	-32.6	
Forex & EO	0.0	0.0	0.0			
Profit from Associates	0.0	18.7	0.0	-100.0		
PBT	161.3	105.5	239.5	52.9	-32.6	
Tax	69.6	22.4	79.4	211.4	-12.3	
Net Profit	91.7	83.1	160.1	10.3	-42.7	Delta vis-a-vis EBITDA was due to higher tax expense being partially offset by higher other income
Key Metrics						
CRAMS - Pharma	209.1	137.7	266.2	51.8	-21.4	YoY growth due to increased demand from customers
CRAMS - Spec Chem	136.4	109.4	104.6	24.6	30.3	YoY growth due to increased demand from customers
Formulations & Others	18.4	12.1	14.4	52.5	28.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,412.0	1,443.3	2.2	1,606.0	1,641.3	2.2	Guidance for 10-15% growth in Pharma CRAMS
EBITDA	635.7	606.2	-4.6	722.7	668.8	-7.5	
EBITDA Margin (%)	45.0	42.0	-302 bps	45.0	40.8	-425 bps	Guidance for minimum 40% EBITDA margins, US formulations at 25%
PAT	450.0	433.3	-3.7	503.9	472.0	-6.3	
EPS (₹)	17.7	17.0	-3.7	19.8	18.5	-6.3	

Source: ICICI Direct Research

Exhibit 3: Assumptions

(₹ crore)	Current			Earlier			Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
CRAMS - Pharma	623.7	773.0	886.3	1,019.2	872.4	1,003.2	Changed due to guidance for steady growth to continue
CRAMS - Spec Chem	305.9	463.2	469.1	525.4	460.8	516.1	Changed amid better-than-expected growth in Q4FY22
Formulations & Others	80.2	84.0	87.9	96.7	78.9	86.7	Expecting incremental contribution in FY24 post approval for ANDAs

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 (%)			
						FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21-FY22E	FY23E	FY24E	FY21-FY22E	FY23E	FY24E		
Hospitals																					
Apollo Hospitals	APOHOS	3701	5,480	Buy	53215	7.9	67.2	81.3	105.5	470.8	55.1	45.5	35.1	6.3	16.4	18.2	20.7	2.5	17.5	18.1	19.9
Narayana Hrudalaya	NARHRU	683	765	Buy	13958	-0.7	17.5	20.1	22.8	NA	39.1	33.9	30.0	1.2	21.2	22.4	21.5	-1.3	24.5	22.3	20.3
Shalby	SHALIM	115	170	Buy	1241	3.9	5.9	5.7	7.2	29.3	19.5	20.0	16.0	6.5	8.9	9.6	10.5	5.1	7.2	6.7	7.9
Aster DM	ASTDM	179	250	Buy	8961	3.0	10.6	17.6	NA	60.7	17.0	10.2	NA	5.4	9.2	12.9	NA	4.4	13.5	18.4	NA
Healthcare Global	HEAGLO	273	240	Hold	3424	-21.7	6.0	3.5	NA	NA	45.6	77.4	NA	-0.9	5.2	7.7	NA	NA	NA	3.4	NA
MNC Pharma																					
Abbott India	ABBIND	16549	19,840	Buy	35165	325.0	370.4	429.0	496.0	50.9	44.7	38.6	33.4	33.8	35.7	34.4	33.4	26.5	28.1	26.8	25.8
P&G Health	MERLIM	4368	4,955	Hold	7250	106.5	121.5	130.5	141.6	41.0	35.9	33.5	30.9	32.2	37.3	34.7	32.8	25.1	29.3	27.0	25.4
Sanofi India	SANOFI	6658	7,740	Hold	15334	207.4	410.1	285.7	276.4	32.1	16.2	23.3	24.1	32.3	33.3	42.3	40.8	24.5	25.9	32.6	31.3
Pfizer	PFIZER	4217	5,350	Buy	19291	108.8	135.2	133.0	148.6	38.8	31.2	31.7	28.4	27.6	27.4	23.6	22.9	20.8	21.7	18.6	18.1
Pharma																					
Ajanta Pharma	AJAPHA	1726	2,605	Buy	14738	74.0	85.4	87.0	100.4	23.3	20.2	19.8	17.2	29.0	27.0	23.8	23.6	21.8	22.4	19.5	19.2
Alembic Pharma	ALEMPHA	727	720	Hold	14295	62.8	27.8	29.7	35.9	11.6	26.2	24.5	20.3	25.1	10.6	11.2	13.8	24.1	10.4	10.3	11.3
Aurobindo Pharma	AURPHA	612	765	Hold	35883	55.0	44.3	53.4	61.2	11.1	13.8	11.5	10.0	16.9	12.5	14.3	15.2	14.7	10.7	11.5	11.7
Biocon	BIOCON	338	380	Hold	40586	6.3	5.7	6.1	11.7	54.0	59.4	55.8	29.0	7.7	7.5	5.0	6.9	9.9	8.1	3.2	5.9
Zydus Lifesciences	CADHEA	333	475	Hold	34091	21.5	21.1	22.4	25.4	15.5	15.8	14.9	13.1	12.6	13.5	13.7	14.6	16.9	14.8	14.0	14.1
Cipla	CIPLA	922	1,100	Buy	74388	29.9	35.9	39.3	43.5	30.9	25.6	23.4	21.2	16.3	18.3	18.0	18.0	13.1	14.1	13.8	13.6
Dr Reddy's Labs	DRREDD	3909	5,160	Buy	65048	117.3	156.5	190.9	236.0	33.3	25.0	20.5	16.6	13.1	15.4	18.6	22.7	11.1	13.1	14.0	15.1
Glenmark Pharma	GLEPHA	415	550	Hold	11697	32.9	44.2	44.2	49.1	12.6	9.4	9.4	8.4	13.9	15.5	15.2	15.4	13.1	13.1	11.7	11.6
Ipca Laboratories	IPCLAB	991	1,175	Buy	25141	44.9	36.6	42.4	48.2	22.1	27.1	23.4	20.5	27.1	19.8	19.1	18.5	24.2	16.6	16.1	15.6
Jubilant Pharmova	JUBLIF	430	490	Hold	6844	37.4	28.7	32.5	40.8	11.5	15.0	13.2	10.5	13.7	10.1	10.4	12.2	12.6	8.9	9.2	10.4
Lupin	LUPIN	732	960	Hold	33256	26.9	16.0	29.7	39.4	27.3	45.9	24.7	18.6	9.1	6.0	10.3	12.6	8.8	5.7	9.5	11.3
Natco Pharma	NATPHA	712	955	Hold	12987	24.2	15.1	19.6	23.1	29.5	47.1	36.4	30.9	13.1	7.3	9.7	10.7	10.7	6.4	7.8	8.5
Sun Pharma	SUNPHA	874	1,075	Buy	209714	30.0	33.5	33.8	38.6	29.1	26.1	25.8	22.7	14.2	18.3	17.8	17.8	15.5	16.4	14.4	14.3
Torrent Pharma	TORPHA	2613	3,235	Hold	44218	74.0	67.6	94.7	114.5	35.3	38.6	27.6	22.8	17.7	18.2	21.1	23.5	21.4	17.1	20.3	20.7
Indoco Remedies	INDREM	358	510	Buy	3299	10.1	16.5	23.3	28.3	35.5	21.7	15.4	12.6	11.7	17.9	21.5	26.3	12.1	16.9	19.8	20.0
Caplin Point	CAPPOI	682	1,010	Buy	5167	81.7	76.7	55.5	60.4	8.3	8.9	12.3	11.3	25.6	24.1	23.5	0.0	20.4	20.5	18.8	18.3
Advanced Enzymes	ADVENZ	286	380	Buy	3198	13.1	11.3	13.6	15.8	21.9	25.4	21.1	18.1	19.4	15.4	16.7	17.2	15.1	11.6	12.4	12.7
Hester Biosciences	HESPHA	2419	2,780	Hold	2058	44.4	47.2	52.0	71.4	54.5	51.3	46.5	33.9	16.2	12.8	14.3	17.3	16.5	15.5	15.1	17.8
API/CRAMS																					
Divi's Lab	DIVLAB	4235	5,335	Buy	112427	74.7	107.8	108.4	126.4	56.7	39.3	39.1	33.5	27.6	30.1	27.7	27.5	21.3	25.4	21.7	21.6
Hikal	HIKCHE	400	500	Buy	4934	10.8	14.6	17.1	22.6	37.1	27.3	23.3	17.7	15.1	15.7	16.0	19.1	14.3	16.7	16.8	18.8
Syngene Int.	SYNINT	561	730	Buy	22471	10.1	9.9	11.4	15.5	55.4	56.8	49.3	36.2	11.5	11.7	12.2	15.7	13.5	12.9	12.3	14.4
Granules India	GRANUL	262	360	Buy	6509	22.2	16.2	19.4	25.8	11.8	16.2	13.5	10.2	24.0	16.2	17.4	20.2	25.3	15.8	16.1	17.8
Laurus Labs	LAULAB	542	690	Buy	29144	18.3	15.4	20.6	26.5	29.6	35.2	26.3	20.4	31.7	21.3	22.6	24.7	37.9	24.7	25.5	25.3
Suven Pharmaceuticals	SUVPH	545	555	Hold	13869	14.2	17.8	17.0	18.5	38.3	30.6	32.0	29.4	31.2	37.5	28.5	26.0	30.7	29.7	23.0	20.8

Source: ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Revenues	1,009.7	1,320.2	1,443.3	1,641.3
Growth (%)	NA	30.8	9.3	13.7
Raw Material Expenses	301.9	399.1	447.4	517.0
Employee Expenses	76.2	100.5	126.3	147.7
Other Manufacturing Expenses	189.1	241.2	263.4	307.8
Total Operating Expenditure	567.3	740.8	837.1	972.5
EBITDA	442.4	579.4	606.2	668.8
Growth (%)	15.0	31.0	4.6	10.3
Interest	11.1	6.2	6.2	6.2
Depreciation	31.6	39.1	51.1	66.1
Other Income	14.2	92.4	28.9	32.8
PBT before Exceptional Items	413.9	626.5	577.8	629.4
Less: Forex & Exceptional Items	0.0	0.0	0.0	0.0
PBT	467.7	667.6	577.8	629.4
Total Tax	105.3	213.8	144.4	157.3
PAT before MI	362.3	453.8	433.3	472.0
Minority Interest	0.0	0.0	0.0	0.0
PAT	362.3	453.8	433.3	472.0
Adjusted PAT	362.3	453.8	433.3	472.0
Growth (%)	14.3	25.2	-4.5	8.9
EPS	14.2	17.8	17.0	18.5
EPS (Adjusted)	14.2	17.8	17.0	18.5

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	358.2	483.3	433.3	472.0
Add: Depreciation & Amortization	31.2	38.3	51.1	66.1
Net Increase in Current Assets	-25.5	-229.0	-43.2	-68.2
Net Increase in Current Liabilities	15.1	35.0	16.5	22.6
Others	-4.7	-3.9	0	0
CF from operating activities	383.4	330.0	464.0	494.0
(Inc)/dec in Fixed Assets	-110.8	-75.2	-250.0	-200.0
(Inc)/dec in Investments	-200.5	-56.1	-50.0	-50.0
Others	0.0	-4.7	4.3	4.8
CF from investing activities	-311.3	-135.9	-295.7	-245.2
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in sec. Loan	-42.4	-48.2	0.0	0.0
Dividend & Dividend Tax	-25.5	-101.8	-76.4	-82.7
Others	-8.67	-6.39	-6.23	-1.56
CF from financing activities	-76.6	-156.4	-82.6	-84.3
Net Cash flow	-4.4	37.7	85.7	164.4
Opening Cash	14.1	9.7	47.3	133.0
Closing Cash	9.7	47.3	133.0	297.5
Free Cash Flow	272.6	254.8	214.0	294.0

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	25.5	25.5	25.5	25.5
Reserve and Surplus	1,155.4	1,501.7	1,858.7	2,248.0
Total Shareholders fund	1,180.8	1,527.2	1,884.1	2,273.4
Total Debt	141.2	95.6	95.6	95.6
Deferred Tax Liability	30.9	54.3	59.7	65.7
Minority Interest	0.0	0.0	0.0	0.0
Other Non Current Liabilities	7.4	9.4	10.3	11.3
Source of Funds	1,360.4	1,686.4	2,049.8	2,446.1
Gross Block - Fixed Assets	568.8	700.9	850.9	1,100.9
Accumulated Depreciation	127.6	166.7	217.8	283.8
Net Block	441.2	534.2	633.1	817.1
Capital WIP	96.3	30.0	130.0	80.0
Net Fixed Assets	537.5	564.2	763.1	897.1
Investments	541.8	598.3	648.3	698.3
Inventory	201.1	283.4	317.7	367.2
Cash	9.7	47.3	133.0	297.5
Debtors	102.4	236.4	237.3	247.3
Loans & Advances & Other CA	0.0	0.0	0.0	0.0
Total Current Assets	384.2	646.7	775.6	1,008.3
Creditors	82.9	105.9	118.7	137.2
Provisions & Other CL	31.2	37.3	41.0	45.1
Total Current Liabilities	114.1	143.2	159.7	182.3
Net Current Assets	270.1	503.5	615.9	826.0
LT L&A, Other Assets	11.0	20.4	22.4	24.6
Deferred Tax Assets	0.0	0.0	0.0	0.0
Application of Funds	1,360.4	1,686.4	2,049.8	2,446.1

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	14.2	17.8	17.0	18.5
Cash EPS	13.5	14.4	16.0	17.9
BV	46.4	60.0	74.0	89.3
DPS	2.0	5.0	3.0	3.3
Cash Per Share	5.0	6.5	8.6	11.1
Operating Ratios (%)				
Gross Profit margins	70.1	69.8	69.0	68.5
EBITDA margins	43.8	43.9	42.0	40.8
Net Profit margins	35.9	34.4	30.0	28.8
Asset Turnover	1.8	1.9	1.7	1.5
Inventory days	243.1	259.2	259.2	259.2
Debtor days	37.0	65.3	60.0	55.0
Creditor days	100.3	96.9	96.9	96.9
Return Ratios (%)				
RoE	30.7	29.7	23.0	20.8
RoCE	31.2	37.5	28.5	26.0
RolC	38.3	47.9	44.2	40.5
Valuation Ratios (x)				
P/E	37.2	29.7	31.1	28.6
EV / EBITDA	30.4	22.5	21.3	19.0
EV / Revenues	13.3	9.9	9.0	7.7
Market Cap / Revenues	13.4	10.2	9.3	8.2
Price to Book Value	11.4	8.8	7.2	5.9
Solvency Ratios				
Debt / Equity	0.1	0.1	0.1	0.0
Debt/EBITDA	0.3	0.2	0.2	0.1
Current Ratio	3.3	4.2	4.0	3.9

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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