

CRAMs continue to deliver, outlook stable...

About the stock: Dedicated CRAMs supports the global life sciences industry and 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

Q1FY23 Results: Strong Q1 numbers driven by strong traction in both Spec Chem and Pharma CRAMs.

- Sales were up 28% YoY to ₹ 339 crore
- EBITDA was at ₹ 151 crore, up 32% YoY with margins at 44.5%
- Consequent PAT was at ₹ 107 crore (up 2% YoY)

What should investors do? Suven's share price has grown by ~1.5x over the past two years (from ~₹ 330 in August 2020 to ~₹ 480 levels in August 2022).

- We maintain **HOLD** as strong CRAMs franchisee notwithstanding, expansion in formulations may bring its own set of challenges

Target Price and Valuation: Valued at ₹ 530 i.e. 30x P/E on FY24E EPS of ₹ 17.6.

Key triggers for future price performance:

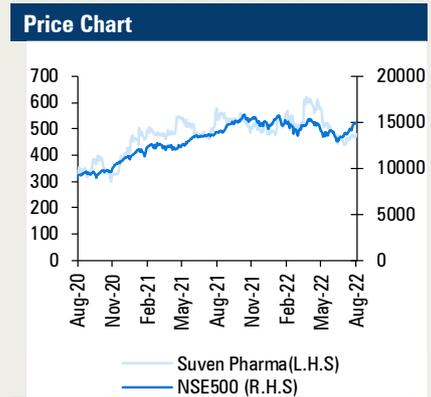
- Focus on research by global innovators has intensified post Covid and augurs well for pharma CRAMs operations that remains a key growth driver
- CDMO:** Progress of molecules across the development journey and high-value, high-margin business, involving the commercial supply of intermediates (for five molecules) to clients
- Spec-Chem:** Developed intermediates for three global agrochemical majors. Ongoing development of fourth intermediate expected in 12-18 months
- Formulations:** Supplies from OSD facility of Casper Pharma and subsequent operational performance in ramping up filings in this segment

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 ₹ 710

Particulars	
Particular	Amount
Market Capitalisation	₹ 12267 crore
Debt (FY22)	₹ 96 crore
Cash (FY22)	₹ 47 crore
EV	₹ 12316 crore
52 week H/L (₹)	631/430
Equity capital	₹ 25.5 crore
Face value	₹ 1

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



- ### Recent Event & Key risks
- USFDA inspected Casper Pharma with zero observations
 - Key Risk:** (i) Better execution in formulations (ii) B2B model with heavy reliance on guidance

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Raunak Thakur
raunak.thakur@icicisecurities.com

Kush Mehta
kush.mehta@icicisecurities.com

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	1372.6	1560.3	8.7
EBITDA	384.8	442.4	579.4	22.7	601.0	624.1	3.8
EBITDA margins (%)	46.1	43.8	43.9		43.8	40.0	
Net Profit	317.0	362.3	453.8	19.6	432.5	449.3	-0.5
EPS (₹)	12.5	14.2	17.8		17.0	17.6	
PE (x)	38.7	33.9	27.0		28.4	27.3	
EV to EBITDA (x)	32.2	27.6	20.4		19.4	18.4	
RoE (%)	37.5	30.7	29.7		23.0	20.0	
RoCE (%)	35.6	31.2	37.5		28.7	25.0	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Robust margins amid CRAMS growth

- Revenues grew 28% YoY to ₹ 339 crore, driven by 37% YoY growth in CRAMS-Pharma to ₹ 210 crore and 38% YoY growth in CRAMS-Spec Chem to ₹ 117 crore. EBITDA margins improved 108 bps YoY to 44.5%, mainly due to higher gross margins (up 43 bps to 71.3%). EBITDA grew 32% YoY to ₹ 151 crore while PAT was up 2% YoY to ₹ 107 crore. Delta vis-a-vis EBITDA was due to higher tax expense
- Suven's quarterly revenues were in line with I-direct estimates while margins were better than expected. For Suven, CRAMS-Pharma remain a high-value, high-margin business, involving the supply of intermediates for NCEs. However, on a Covid-led high base of FY22 and gradual transformation of big pharma from Covid to non-Covid investments, FY23 is likely to be a steady year. CRAMS in Spec-Chem is expected to ramp up in FY24 with likely repeat business in the third molecule and another new molecule in late development stage. In formulations, the management is guiding for operationalisation of Casper Pharma from March, 2023 and achieving ~ ₹ 300-400 crore topline by FY25. Suven is investing ₹ 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 from this may be visible in the long run. However, we continue to emphasise on the company's foray into formulations with Casper Pharma, in a highly competitive space of generic OSD in US with diminishing returns

Q1FY23 Earnings Conference Call highlights

- **CRAMS-Pharma:** In FY22, Suven achieved ~ ₹ 120 crore of topline through Covid opportunity as a molecule was repurposed for Covid. In Q1FY23, there was some Covid sales, which is likely to be absent in the rest of the FY23. The management is indicating that FY23 is a transformative year for big pharma companies as they gradually step up investments from Covid to non-Covid molecules. The company expects to fill a lost Covid opportunity of FY22 through organic growth in FY23
- **CRAMS Specialty Chem:** The third molecule that was commercialised by Suven in FY22 will witness repeat volumes post 12-18 months
- **Formulations:** In Q1FY23, formulations sales: ₹ 9 crore vs. ₹ 11 crore in Q1FY22. Suven ANDAs (filed: 20, approved:10, launched: 10, FY23E filings: seven to eight); Casper ANDAs (filed: four, FY23E filings: 10). Casper completed USFDA inspection with zero observations. The management is expecting to resume operations from March, 2023. The company has guided for ₹ 300-400 crore revenues from formulations by FY25
- Capex guidance for FY23 and FY24: ₹ 250 crore. About ₹ 200 crore for Suryapet facility work to begin and most of the spend will be incurred this year. About ₹ 200 crore for R&D centre relocation work in two to three years and ₹ 200 crore for additional block at Pashamylaram from FY24

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY22	Q4FY22	YoY (%)	QoQ (%)	Comments
Revenue	338.8	263.8	363.8	28.4	-6.9	YoY growth amid strong growth in CRAMS Spec Chem & pharma business
Raw Material Expenses	97.1	76.8	110.3	26.5	-12.0	
Gross margins (%)	71.3	70.9	69.7	43.6	166.7	YoY improvement amid change in mix amid lower contribution from formulations
Employee Expenses	26.6	21.2	31.1	25.6	-14.6	
Other Expenditure	64.2	51.3	65.4	25.3	-1.7	
EBITDA	150.9	114.6	157.0	31.6	-3.9	
EBITDA (%)	44.5	43.4	43.2	108.9	137.9	YoY improvement mainly due to better operating leverage
Interest	1.5	2.1	2.2	-31.7	-33.7	
Depreciation	11.5	9.0	10.4	27.9	10.4	
Other Income	11.0	5.8	16.9	90.8	-34.6	
PBT before EO & Forex	149.0	109.3	161.3	36.3	-7.6	
Forex & EO	0.0	0.0	0.0			
Profit from Associates	0.0	23.6	0.0	-100.0		
PBT	149.0	132.9	161.3	12.1	-7.6	
Tax	41.4	27.8	69.6	48.8	-40.5	
Net Profit	107.5	105.1	91.7	2.3	17.3	Base of Q1FY22 includes ₹ 24 core of income from discontinued associate

Key Metrics

CRAMS - Pharma	210.2	153.4	209.1	37.1	0.6
CRAMS - Spec Chem	117.4	84.9	136.4	38.3	-13.9
Formulations & Others	11.2	24.5	18.4	-54.3	-39.1

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,443.3	1,372.6	-4.9	1,641.3	1,560.3	-4.9	Changed mainly due to lower growth visibility amid gradual transformation by big pharma from Covid to non-Covid investments
EBITDA	606.2	601.0	-0.9	668.8	624.1	-6.7	
EBITDA Margin (%)	42.0	43.8	179 bps	40.8	40.0	-75 bps	Changed mainly due to additional opex from Casper Pharma in FY24
PAT	433.3	432.5	-0.2	472.0	449.3	-4.8	
EPS (₹)	17.0	17.0	-0.2	18.5	17.6	-4.8	

Source: ICICI Direct Research

Exhibit 3: Assumptions

(₹ crore)	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
CRAMS - Pharma	623.7	773.0	813.8	935.9	886.3	1,019.2	Changed due to steady outlook on base of ₹120 crore Covid sales in FY22
CRAMS - Spec Chem	305.9	463.2	484.7	542.9	469.1	525.4	
Formulations & Others	80.2	84.0	74.1	81.5	87.9	96.7	Expecting incremental contribution in FY24 from Casper Pharma

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	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Hospitals																					
Apollo Hospitals	APOHOS	4433	4,500	Buy	63740	7.9	59.1	80.9	107.4	564.0	75.0	54.8	41.3	6.3	15.1	16.7	19.3	2.5	15.1	17.7	19.9
Narayana Hrudalaya	NARHRU	660	750	Buy	13481	-0.7	16.7	18.9	21.6	NA	39.4	34.9	30.6	1.2	20.5	18.8	19.5	-1.3	23.0	20.8	19.4
Shalby	SHALIM	123	150	Buy	1323	3.9	5.4	7.5	9.9	31.2	22.6	16.4	12.4	6.5	8.4	11.7	14.3	5.1	6.7	8.6	10.4
Aster DM	ASTDM	238	270	Buy	11896	3.0	10.5	14.4	18.4	80.5	22.6	16.6	12.9	5.4	9.0	11.4	12.9	4.4	13.3	15.4	16.4
Healthcare Global	HEAGLO	286	340	Buy	3972	-13.9	3.9	3.6	8.0	-13.9	73.9	78.9	35.6	-0.9	5.0	7.6	10.2	-0.9	5.0	5.5	10.8
MNC Pharma																					
Abbott India	ABBIND	20300	20,560	Buy	43136	325.0	375.9	439.8	514.0	62.5	54.0	46.2	39.5	33.8	36.6	37.9	36.3	26.5	28.3	29.5	28.1
P&G Health	MERLIM	4410	4,955	Hold	7320	106.5	121.5	130.5	141.6	41.4	36.3	33.8	31.2	32.2	37.3	34.7	32.8	25.1	29.3	27.0	25.4
Sanofi India	SANOFI	6518	6,885	Hold	15012	207.4	410.1	270.5	264.8	31.4	15.9	24.1	24.6	32.3	33.3	41.1	50.7	24.5	25.9	31.2	38.7
Pfizer	PFIZER	4160	4,480	Hold	19031	108.8	133.9	140.4	149.3	38.2	31.1	29.6	27.9	27.6	26.1	22.4	21.8	20.8	21.4	17.9	17.7
Pharma																					
Ajanta Pharma	AJAPHA	1274	1,495	Buy	16329	51.0	55.6	60.1	71.1	25.0	22.9	21.2	17.9	29.0	27.0	24.4	24.5	21.8	21.8	19.9	19.9
Alembic Pharma	ALEMPHA	664	590	Reduce	13047	62.8	27.8	15.3	26.9	10.6	23.9	43.4	24.7	25.1	10.6	6.5	10.5	24.1	10.4	5.6	9.1
Aurobindo Pharma	AURPHA	568	610	Hold	33273	55.0	47.4	45.6	51.0	10.3	12.0	12.4	11.1	16.9	12.9	12.5	13.1	14.7	11.3	9.9	10.0
Biocon	BIOCON	314	320	Hold	37663	6.3	5.7	5.5	11.3	50.1	55.1	57.6	27.7	7.7	7.5	4.1	6.5	9.9	8.1	2.8	5.5
Zydus Lifesciences	CADHEA	360	475	Hold	36855	23.3	21.0	20.2	24.0	15.4	17.1	17.8	15.0	13.8	12.0	11.2	12.4	18.4	12.6	11.0	11.7
Cipla	CIPLA	1030	1,135	Buy	83075	29.9	32.9	38.6	45.8	34.5	31.3	26.7	22.5	16.3	16.7	17.9	19.0	13.1	12.7	13.3	14.1
Dr Reddy's Labs	DRREDD	4223	4,750	Buy	70294	117.3	126.9	203.4	191.0	36.0	33.3	20.8	22.1	13.1	13.0	19.1	18.1	11.1	11.0	15.4	13.0
Glenmark Pharma	GLEPHA	371	460	Hold	10468	32.9	42.7	41.0	48.3	11.3	8.7	9.1	7.7	13.9	14.8	14.5	15.4	13.1	13.2	11.4	11.9
Ipca Laboratories	IPCLAB	1010	1,000	Hold	25613	44.9	34.8	32.7	39.9	22.5	29.0	30.9	25.3	27.1	17.4	16.2	17.4	24.2	16.1	13.4	14.4
Jubilant Pharmova	JUBLIF	348	340	Reduce	5537	37.4	26.0	15.9	26.1	9.3	13.4	21.9	13.3	13.7	9.0	6.1	8.6	12.6	7.8	4.6	7.0
Lupin	LUPIN	667	610	Reduce	30307	26.9	11.9	11.8	27.7	24.8	56.1	56.7	24.1	9.6	3.4	5.8	10.9	8.8	4.4	4.2	9.2
Natco Pharma	NATPHA	751	820	Hold	13698	24.2	9.3	28.3	33.2	31.1	80.6	26.6	22.6	13.1	4.6	13.3	14.1	10.7	4.0	11.0	11.6
Sun Pharma	SUNPHA	910	1,125	Buy	218435	30.0	32.0	34.8	40.1	30.3	28.5	26.1	22.7	14.2	18.2	18.0	18.7	15.5	16.0	15.2	15.2
Torrent Pharma	TORPHA	1555	1,800	Buy	52632	37.0	32.0	43.7	54.6	42.0	48.5	35.6	28.5	17.6	19.7	24.7	29.4	21.4	18.2	20.9	21.8
Indoco Remedies	INDREM	396	510	Buy	3649	10.1	16.8	21.8	28.4	39.2	23.6	18.1	13.9	11.7	17.5	18.8	24.9	12.1	17.1	18.7	20.2
Caplin Point	CAPPOI	813	1,000	Buy	6163	81.7	85.3	70.4	73.0	9.9	9.5	11.6	11.1	25.3	23.7	22.6	0.0	20.4	20.2	18.7	17.5
Advanced Enzymes	ADVENZ	279	265	Reduce	3117	13.1	10.7	8.5	12.1	21.3	26.1	32.9	23.1	19.4	14.3	10.2	13.2	15.1	11.0	8.1	10.4
Hester Biosciences	HESPHA	2412	2,445	Hold	2052	44.4	45.7	41.3	63.2	54.4	52.8	58.4	38.2	16.2	10.9	9.9	13.4	16.5	15.0	12.2	16.3
API/CRAMS																					
Divi's Lab	DIVLAB	3938	4,655	Buy	104531	74.7	111.5	105.7	122.5	52.7	35.3	37.3	32.1	27.6	30.2	25.8	25.5	21.3	25.2	20.3	20.0
Hikal	HIKCHE	263	340	Buy	3241	10.8	13.0	11.1	19.0	24.3	20.2	23.7	13.9	15.1	13.6	10.9	16.3	14.3	15.0	11.5	16.8
Syngene Int.	SYNINT	576	710	Buy	23127	10.1	9.9	11.5	14.6	56.9	58.4	49.9	39.5	11.5	11.7	12.8	15.2	13.5	12.9	12.4	13.7
Granules India	GRANUL	314	345	Buy	7790	22.2	16.6	19.6	24.6	14.2	18.9	16.0	12.8	24.0	15.6	16.8	18.6	25.3	16.0	16.0	16.9
Laurus Labs	LAULAB	550	675	Buy	29539	18.3	15.4	20.7	27.0	30.0	35.7	26.5	20.4	31.7	21.3	23.6	26.0	37.9	24.7	25.6	25.6
Suven Pharmaceuticals	SUVPH	481	530	Hold	12232	14.2	17.8	17.0	17.6	33.8	27.0	28.3	27.2	31.2	37.5	28.7	25.0	30.7	29.7	23.0	20.0

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	1,372.6	1,560.3
Growth (%)	NA	30.8	4.0	13.7
Raw Material Expenses	301.9	399.1	407.2	483.7
Employee Expenses	76.2	100.5	104.1	132.6
Other Manufacturing Expenses	189.1	241.2	260.3	319.9
Total Operating Expenditure	567.3	740.8	771.6	936.2
EBITDA	442.4	579.4	601.0	624.1
Growth (%)	15.0	31.0	3.7	3.8
Interest	11.1	6.2	6.1	6.2
Depreciation	31.6	39.1	49.5	65.7
Other Income	14.2	92.4	36.9	46.8
PBT before Exceptional Items	413.9	626.5	582.2	599.0
Less: Forex & Exceptional Items	0.0	0.0	0.0	0.0
PBT	467.7	667.6	582.2	599.0
Total Tax	105.3	213.8	149.7	149.8
PAT before MI	362.3	453.8	432.5	449.3
Minority Interest	0.0	0.0	0.0	0.0
PAT	362.3	453.8	432.5	449.3
Adjusted PAT	362.3	453.8	432.5	449.3
Growth (%)	14.3	25.2	-4.7	3.9
EPS	14.2	17.8	17.0	17.6
EPS (Adjusted)	14.2	17.8	17.0	17.6

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	432.5	449.3
Add: Depreciation & Amortization	31.2	38.3	49.5	65.7
Net Increase in Current Assets	-25.5	-229.0	-3.0	-72.5
Net Increase in Current Liabilities	15.1	35.0	5.9	24.4
Others	-4.7	-3.9	0	0
CF from operating activities	383.4	330.0	491.0	468.4
(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	-6.12	-1.55
CF from financing activities	-76.6	-156.4	-82.5	-84.3
Net Cash flow	-4.4	37.7	112.9	138.9
Opening Cash	14.1	9.7	47.3	160.2
Closing Cash	9.7	47.3	160.2	299.0
Free Cash Flow	272.6	254.8	241.0	268.4

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	1,857.9	2,224.4
Total Shareholders fund	1,180.8	1,527.2	1,883.3	2,249.8
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	2,048.9	2,422.5
Gross Block - Fixed Assets	568.8	695.0	845.0	1,095.0
Accumulated Depreciation	127.6	160.8	210.3	276.0
Net Block	441.2	534.2	634.7	819.0
Capital WIP	96.3	30.0	130.0	80.0
Net Fixed Assets	537.5	564.2	764.7	899.0
Investments	541.8	598.3	648.3	698.3
Inventory	201.1	283.4	289.2	343.5
Cash	9.7	47.3	160.2	299.0
Debtors	102.4	236.4	225.6	235.1
Loans & Advances & Other CA	0.0	0.0	0.0	0.0
Total Current Assets	384.2	646.7	762.6	974.0
Creditors	82.9	105.9	108.1	128.3
Provisions & Other CL	31.2	37.3	41.0	45.1
Total Current Liabilities	114.1	143.2	149.0	173.4
Net Current Assets	270.1	503.5	613.5	800.5
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	2,048.9	2,422.5

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	17.6
Cash EPS	13.5	14.4	15.9	17.0
BV	46.4	60.0	74.0	88.4
DPS	2.0	5.0	3.0	3.3
Cash Per Share	5.0	6.3	8.3	10.8
Operating Ratios (%)				
Gross Profit margins	70.1	69.8	70.3	69.0
EBITDA margins	43.8	43.9	43.8	40.0
Net Profit margins	35.9	34.4	31.5	28.8
Asset Turnover	1.8	1.9	1.6	1.4
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	20.0
RoCE	31.2	37.5	28.7	25.0
RolC	38.3	47.9	44.9	38.2
Valuation Ratios (x)				
P/E	33.9	27.0	28.4	27.3
EV / EBITDA	27.6	20.4	19.4	18.4
EV / Revenues	12.1	9.0	8.5	7.4
Market Cap / Revenues	12.1	9.3	8.9	7.9
Price to Book Value	10.4	8.0	6.5	5.5
Solvency Ratios				
Debt / Equity	0.1	0.1	0.1	0.0
Debt/EBITDA	0.3	0.2	0.2	0.2
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%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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