

Suven Life Sciences

30 June 2017

Reuters: SUVP.NS; Bloomberg: SVLS IN

We had a meeting with the management of Suven Life Sciences (SLSL) recently to understand its business model and future plans. SLSL is a pioneer among Indian players in contract research and manufacturing. Apart from its presence in the CRAMS space, the company also has a limited presence in specialty chemicals from which it derives stable revenues. The revenue model has been stable over the past few years.

Exhibit 1: Revenue Model – Suven Life Science

(Rsmn)	Contract technical services	Base CRAMS	Commercial CRAMS	Specialty chemicals
FY14	310	1,850	1750	1,900
FY15	380	2,790	450	1,590
FY16	400	2,300	-	2,240
FY17	240	2,300	340	2,240

Source: Suven Life

NCE research – Currently a Non-revenue generating business avenue: Apart from these revenue generating business, SLSL is also into new chemical entity (NCE) research which focuses on developing a novel treatment for Alzheimer's disease. The most advanced entity that is under clinical development is SUVN-502 and it is currently under Phase-2 trials. The Phase-2 trials are expected to report data in the second-half of 2018. SUVN-502 shares its mechanism of action (5HT6 antagonist) with a few compounds – Lu AE58054 and RVT-101 - which have been licensing candidates. However, we remain cautious and believe the likelihood of success is extremely low because of the following reasons:

- 1) Alzheimer's disease represent a difficult therapeutic segment as we have seen no success since a long time and new innovations continue to fail.
- 2) Lu AE58054, which is also a 5HT6 antagonist, has been discontinued for development by Otsuka in Alzheimer's type dementia.
- 3) Phase-2 data on RVT-101 is not encouraging.

RVT-101 is expected to report Phase-3 data on Alzheimer's disease in October 2017 and we believe the quality of data will determine the value of SUVN-502. A successful outcome for RVT-101 will raise the odds of SLSL successfully outlicensing its lead asset SUVN-502 for an attractive upfront payment.

CRAMS business: The CRAMS business can be divided into two segments – commercial manufacturing, and base CRAMS business which is largely custom synthesis. SLSL has got three compounds for which it has been doing commercial manufacturing. These three compounds are into different therapeutic areas – diabetes, autoimmune /inflammatory disorder and depression. These projects went into commercial manufacturing in FY14. In FY18, SLSL expects orders worth US\$10mn for commercial supply of anti-inflammatory compound. There is a chance that it may receive incremental order for the anti-diabetes compound as well. The custom synthesis business largely deals with providing intermediate/API supply for clinical trial requirement of the compounds under development. Currently, it does clinical supply for 111 NCE compounds of which three are under Phase-3 trials, 38 under Phase-2 and 70 under Phase-1. The custom synthesis pipeline has been stable for the past several years. SLSL expects 10%-15% growth in its custom synthesis business in FY18. So far the company has catered to about 71 clients, of which 35 are active. Client dependency is not too high and it keeps varying. In the best-case scenario, a given client will contribute 8%-12% to custom synthesis revenues. SLSL remains a preferred supplier for most of its clients.

Research and development or R&D spending on NCE pipeline depresses earnings growth: Annually, SLSL spends around 14% of its sales on proprietary NCE research, which so far remains a non-revenue generating activity. Since 2005, the cumulative R&D spending on NCEs by the company is close to Rs6,250mn.

Balance sheet remains strong: Despite the spending on R&D, SLSL maintains a strong balance sheet. It is a cash-positive company with around Rs3,000mn in net cash.

NOT RATED

Sector: Pharmaceuticals

CMP: Rs172

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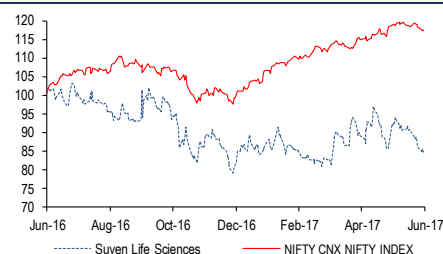
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Key Data

Current Shares O/S (mn)	127.3
Mkt. Cap (Rsbn/US\$mn)	22.1/342.3
52 Wk H / L (Rs)	221/149
Daily Vol. (3M NSE Avg.)	305,390

One Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
Suven Life Sciences	(7.2)	4.4	(16.1)
Nifty Index	(1.0)	17.3	15.8

Source: Bloomberg

Exhibit 2: Key financials

Y/E March (Rsmn)	FY14	FY15	FY16	FY17
Net sales	5,103	5,209	5,003	5,445
EBITDA	2,191	1,595	1,017	1,291
Net profit	1,442	1,088	718	872
EPS (Rs)	11	9	6	7
EPS growth (%)	367	(25)	(34)	21
EBITDA margin (%)	43	31	20	24
P/E (x)	15	20	30	25
P/BV (x)	8	4	4	3
EV/EBITDA (x)	10	12	20	17
RoCE (%)	71	25	16	19
RoE (%)	55	19	12	13

Source: Company, Nirmal Bang Institutional Equities Research

Financial statement

Exhibit 3: Income statement

Y/E March (Rsmn)	FY14	FY15	FY16	FY17
Net sales	5,103	5,209	5,003	5,445
% growth	98	2	(4)	9
Raw material costs	1,904	2,452	1,664	1,518
Staff costs	314	365	409	522
R&D Expenses	479	560	904	991
Other expenditure	215	238	1,009	1,122
Total expenditure	2,913	3,614	3,986	4,154
EBITDA	2,191	1,595	1,017	1,291
% growth	312	(27)	(36)	27
EBITDA margin (%)	43	31	20	24
Other income	10	30	86	193
Interest costs	105	47	59	57
Gross profit	3,199	2,757	3,339	3,926
% growth	134	(14)	21	18
Depreciation	88	118	175	214
Profit before tax	2,027	1,516	976	1,231
% growth	517	(25)	(36)	26
Tax	586	428	257	359
Effective tax rate (%)	29	28	26	29
Net profit	1,442	1,088	718	872
% growth	367	(25)	(34)	21
EPS (Rs)	11	9	6	7
% growth	367	(25)	(34)	21

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Balance sheet

Y/E March (Rsmn)	FY14	FY15	FY16	FY17
Equity	117	127	127	127
Reserves	2,528	5,466	5,826	6,543
Net worth	2,644	5,593	5,953	6,670
Minority interest	-	-	-	-
Total debt	663	897	658	564
Other non-current liabilities	294	250	39	42
Liabilities	3,601	6,740	6,650	7,276
Net block	1,792	1,719	3,051	3,045
Capital WIP	128	1,070	72	97
Intangible assets	-	-	3	12
Other non-current assets	140	172	112	85
Current investment	0.37	0.37	0.53	3008.9
Inventories	786	818	835	925
Debtors	655	402	536	458
Cash	680	2,797	2,414	92
Loans and advances	680	746	-	-
Other current assets	4	7	492	433
Total current assets	2,806	4,770	4,277	4,917
Creditors	409	439	600	649
Other current liabilities	856	553	266	233
Total current liabilities	1,265	992	865	881
Net current assets	1,541	3,778	3,412	4,036
Total assets	3,601	6,740	6,650	7,276

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Cash flow

Y/E March (Rsmn)	FY14	FY15	FY16	FY17
EBIT	2,133	1,563	1,035	1,288
(Inc.)/dec. in working capital	(506)	(121)	(17)	(2,946)
Cash flow from operations	1,627	1,442	1,018	(1,659)
Other income	(30)	(86)	(193)	(211)
Other expenses	276	(49)	(227)	-
Depreciation	88	118	175	214
Tax paid (-)	(586)	(428)	(257)	(359)
Net cash from operations	1,375	997	516	(2,014)
Capital expenditure (-)	(352)	(987)	(511)	(243)
Net cash after capex	1,023	10	5	(2,258)
Other investment activities	141	54	253	238
Cash from financial activities	(702)	2,053	(640)	(302)
Opening cash balance	218	680	2,797	2,414
Closing cash balance	680	2,797	2,414	92
Change in cash balance	462	2,116	(383)	(2,322)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Key ratios

Y/E March (Rsmn)	FY14	FY15	FY16	FY17
Profitability & return ratios				
EBITDA margin (%)	42.9	30.6	20.3	23.7
EBIT margin (%)	41.8	30.0	20.7	23.6
Net profit margin (%)	28.2	20.9	14.4	16.0
RoE (%)	54.5	19.4	12.1	13.1
RoCE (%)	64.5	24	16	18
Working capital & liquidity ratios				
Receivables (days)	46.8	28.1	39.1	30.7
Inventory (days)	150.7	121.8	183.1	222.4
Payables (days)	78.4	65.3	131.5	155.9
Current ratio (x)	2.2	4.8	4.9	5.6
Quick ratio (x)	1.6	4.0	4.0	4.5
Valuation ratios				
EV/sales (x)	4.3	3.8	4.0	4.1
EV/EBITDA (x)	10.0	12.5	19.8	17.3
P/E (x)	15.2	20.1	30.5	25.1
P/BV (x)	8.3	3.9	3.7	3.3
Profitability & return ratios				

Source: Company, Nirmal Bang Institutional Equities Research

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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