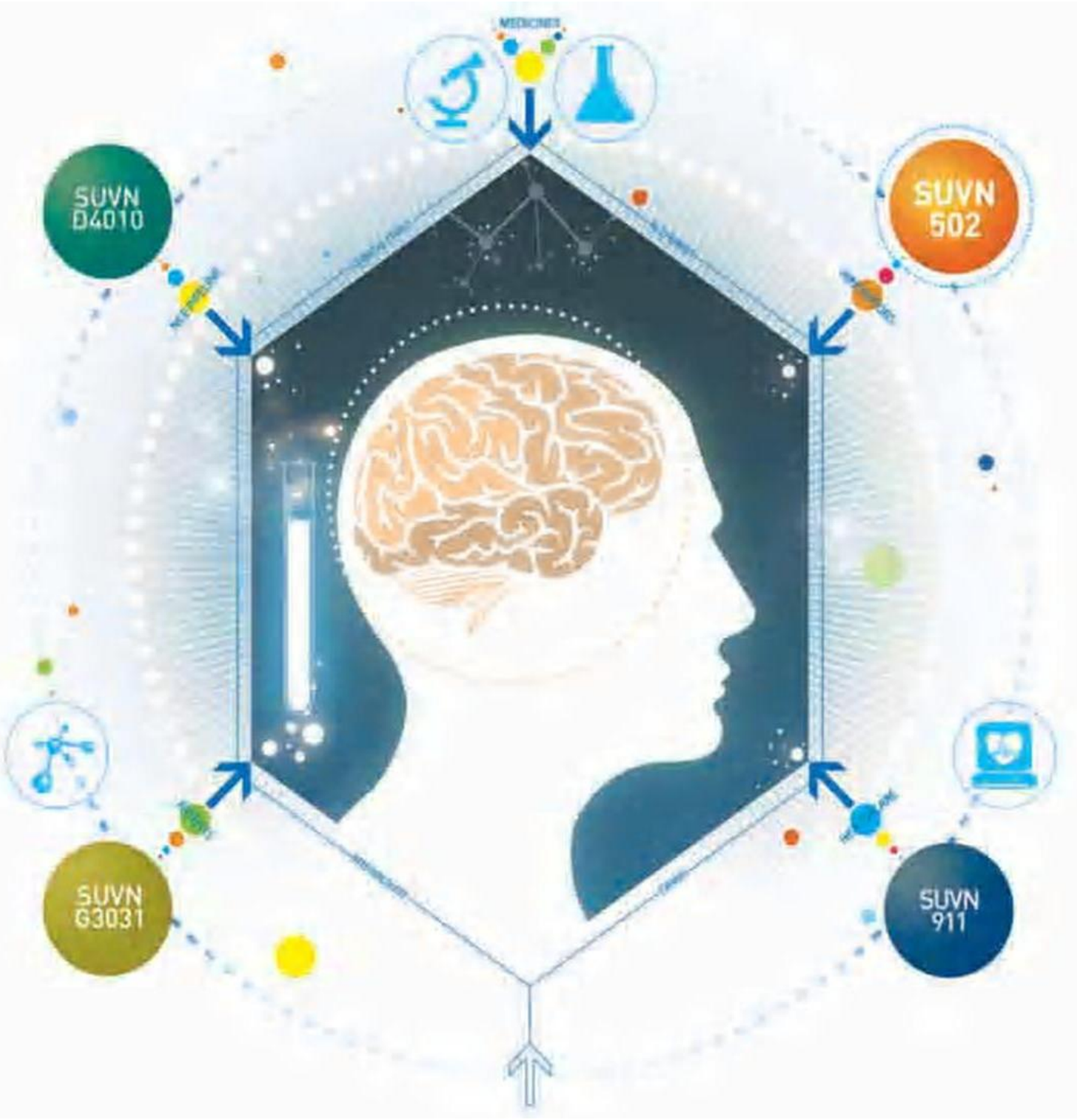
BP WEALTH

Suven Life Sciences Ltd

Initiating Coverage



Ground work for next phase of growth

August 2018

Table of Content

Suven Life Sciences Ltd

Buy

BP WEALTH

Pharmaceuticals | Initiating Coverage

03rd August 2018

Company Background

Suven Life Sciences (SLS) has base operations in providing Contract Research and Manufacturing Services (CRAMS) support to New Chemical Entity (NCE) molecules from FY95 and has completed over 800 innovation assistance projects. The company partners with innovators for NCE molecule development and currently has 109 active projects as on March, 31, 2018. The company is also supplying a speciality intermediate and has opened a facility in Vizag .The company has been working on NCE molecule development from FY06. It has 13 molecules in pipeline; leading amongst them is SUVN-502 entering Phase-II-A trials and three other molecules are in US-IND (basically New Drugs) stages. SVLS also plans to enter formulations space with 4 ANDA (Abbreviated New Drug Application) and one already out licensed to Taro and generated close to Rs. 260 million during the last two years. With 92% revenue from overseas market, SLS has business relationships with 70+ clients across the globe.

Investment Rationale

Advance phase shift of molecules to keep revenue trajectory upward

With ~90% contribution to total revenue CRAMS remains the primary business for SLS. The company has vast experience due to successful delivery 755+ projects and has 250+ scientists working on CRAMS projects. In Base CRAMS (~55- 60% of revenue), SLS supplies intermediates to innovator companies for NCE development. Generally, SLS gets an order for a new product at phase I, which gradually moves further based on the innovator's success; the volume of intermediates supplied increases 10 times if the product moves to phase II and, similarly, if it moves to phase III. The profit margins in supplies for phase I are very low due to low volumes and involvement in R&D; margins improve substantially in phase II and phase III. Client dependency is not too high and it keeps varying. In the best-case scenario, a given client will contribute 8%-10% to custom synthesis revenues. SLS remains a preferred supplier for most of its clients. We expect revenue growth from base CRAMS business to register a 18% CAGR over FY18-20E driven by the consistent rise in number of active molecules and more molecules being added in Phase II trial for the innovators.

Commercial CRAMS: Flattish revenue for 19/20E

Although the company has been in CRAMS from FY06, it has reached the commercialization threshold with three molecules during FY15. The Commercial CRAMS is a high value, high margin business involving supply of intermediates for New Chemical Entity's (NCE's) that are already launched by innovators companies. The three molecules address diseases namely Rheumatoid Arthritis, Diabetes and Depression for US and EU based clients that have generated major part of revenues of Rs1.2bn in FY18 at 38.7% CAGR over FY15-18. During FY18, SLS has also received its first order for the supply of intermediates for a women's health product for an NDA filling. We expect that revenues would increase gradually based on a ramp-up in sales for the innovator in its home area and a launch of such products in new territories and countries. The company is among the 2-3 suppliers for the intermediary and the exclusivity is expected to last up to FY21. We project overall commercial CRAMS revenue to cap at Rs 10bn over FY19/20E, however, one more addition to commercial phase further enhances overall revenue for the segment. However, we haven't factored any molecule commercialization in our estimates.

Developing a strong own NCE pipeline

The company also has its own NCE pipeline, which comprises 13 molecules including four molecules in various stages of clinical trials. SUVN 502 is the advance molecule of SLS, which is a class of selective 5-HT6 receptor compound for the treatment of Alzheimer's disease. SUVN 502 entered phase 2 clinical trials in September 2015. The spending specific to this drug stands reflected only in consolidated numbers, as this spending is done through a US-based 100% subsidiary. Successful completion of phase 2 would result in partnership (in licensing) offers from global pharma companies which will help in monetizing the molecule. Management is confident about the success of SUVN-502 against its competitors (GSKs Axovant and Lundbecks Otsuka molecule in Phase-3) due to no side effects. Currently, SUVN 502 is undergoing phase 2 clinical trials in the US, with the total number of enrolled participants at ~450 patients. Another 87 patients are expected to be enrolled by Oct-18 and with last patient out in April-19, final study results expected by July-19. On Successful completion of phase 2 trails, will provide SLS huge opportunity to out licenses its product for further study. We believe that there would be good demand for such molecules from MNCs, considering the huge un-met medical requirement for these diseases in the US and non availability of many drugs for them.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook **Positive**

Stock

CMP (Rs)	222
Target Price (Rs)	298
BSE code	530239
NSE Symbol	SUVEN
Bloomberg	SVLS IN
Reuters	SUVP.BO

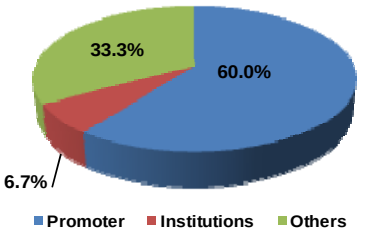
Key Data

Nifty	11,247
52 Week H/L (Rs)	220/227
O/s Shares (Mn)	127
Market Cap (Bn)	28.3
Face Value (Rs)	1

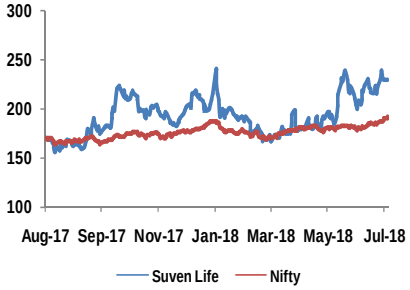
Average volume

3 months	8,04,856
6 months	7,52,033
1 year	6,44,220

Share Holding Pattern (%)



Relative Price Chart



Research Analyst
Nikhil Shetty
nikhilshetty@bpwealth.com
022-61596408

Financial performance to improve further

SLS has witnessed strong growth in revenue of 22.6% CAGR, whereas operating profit has shown growth of 42.4% CAGR over FY11 to FY18. With improved operating efficiency, we expect the EBITDA margin to expand at a higher rate than the gross margin due to lower than average R&D expense of 15.4% in FY19-20E compared to average 17% during FY16-18. We expect R&D spending on consolidate level to stand at ~Rs1,146-1,002mn annually for FY19-20E with overall R&D spend rate as % of revenue expected to peak out in FY19 at about 17.3% of sales and expected to decline to about to 14% by FY20E. PAT has grown at a rate lower to EBITDA due to increase in the effective tax rate from 28.9% in FY14 to 36.7% in FY17.Going ahead, the management expects tax rate to remain at 30% level. There has been deterioration in RoE from 21.9% to 17.2% in FY13 and FY18 respectively on the back of equity dilution due to Rs 2,000mn QIP in FY14. We expect return ratios are set to remain in the range of 15-18%, as growth normalizes and R&D run-rate peaks out.

Why we like this stock & valuation methodology

SLS can scale up both commercial supplies (as client market expands) and out-licensed ANDAs (as 3-4 more ANDA filings materialize). While the company's portfolio of CRAMS projects in higher phases support the growth of CRAMS, they would also act as feeder for commercialized supplies and speciality intermediates going forward. Considering the expected mid teen, adjusted PAT CAGR over FY18-20E with upward potential, the strong balance sheet, improving return ratios and good corporate governance practices, we are optimistic about the long-term growth prospect of the company. At the CMP(Rs 222), the stock is trading at 22.5x its FY19E EPS of Rs 9.8 and 17.6x its FY20E EPS of Rs 12.6. We initiate coverage on the stock & recommend **'BUY'** rating with target price of Rs 298 per share. Our target price is based on 22x FY20E (20% discount to two year average P/E 27.8) earnings for base business at Rs 278 and NCE valued at Rs 20/ share assuming a payoff on similar lines to a recent deal in this space.

Key Financials						
YE March (Rs. mn)	**FY15**	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Revenue	**5,209**	**4,995**	**5,435**	**6,253**	**6,609**	**7,391**
Growth (Y-oY)	*2.1%*	*(4.1%)*	*8.8%*	*15.0%*	*5.7%*	*11.8%*
EBITDA	**1,595**	**1,013**	**1,291**	**1,982**	**1,948**	**2,491**
Growth (Y-o-Y)	*(27.2%)*	*(36.4%)*	*27.4%*	*53.5%*	*(1.7%)*	*27.9%*
Net Profit	**1,088**	**718**	**872**	**1,237**	**1,253**	**1,607**
Growth (Y-o-Y)	*(24.6%)*	*(33.9%)*	*21.3%*	*41.9%*	*1.3%*	*28.2%*
Diluted EPS	**8.5**	**5.6**	**6.8**	**9.7**	**9.8**	**12.6**
Growth (Y-o-Y)	*-24.6%*	*-33.9%*	*21.3%*	*41.9%*	*1.3%*	*28.2%*
No of Diluted shares (mn)	**127**	**127**	**127**	**127**	**127**	**127**
Key Ratios						
EBITDA (%)	**30.6%**	**20.3%**	**23.7%**	**31.7%**	**29.5%**	**33.7%**
NPM (%)	20.9%	14.4%	16.0%	19.8%	19.0%	21.7%
RoE (%)	**26.4%**	**12.4%**	**13.8%**	**17.2%**	**15.3%**	**17.1%**
RoCE (%)	21.8%	11.5%	13.2%	16.4%	14.6%	16.4%
Tax Rate %	**28.2%**	**26.4%**	**29.2%**	**36.7%**	**35.0%**	**35.0%**
Book Value Per share (Rs.)	43.9	46.8	52.4	60.3	68.6	79.3
Valuation Ratios						
P/E (x)	**26.0x**	**39.3x**	**32.4x**	**22.8x**	**22.5x**	**17.6x**
EV/EBITDA	16.5x	26.1x	22.3x	14.3x	14.2x	10.9x
P/BV (x)	**5.1x**	**4.7x**	**4.2x**	**3.7x**	**3.2x**	**2.8x**
Market Cap. / Sales (x)	5.4x	5.7x	5.2x	4.5x	4.3x	3.8x

Source: Company, BP Equities Research

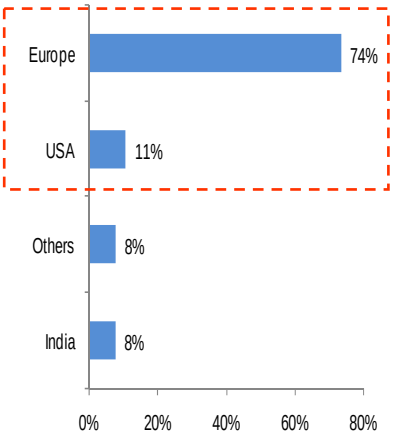
We have valued SLS's base business by assigning 22x to its FY20 earning estimates and We value the NCE assuming a payoff on similar lines to a recent deal in this space. On conservative basis, we have valued SUVN502 (NCE) at Rs 20/ per share (Probability-adjusted DCF value per share of at Discount rate :95%). We arrive at a target price of Rs 298 (potential upside of 34% from CMP) for an investment horizon of 12-15 months.

Investment Rationale

Advance phase shift of molecules to keep revenue trajectory upward

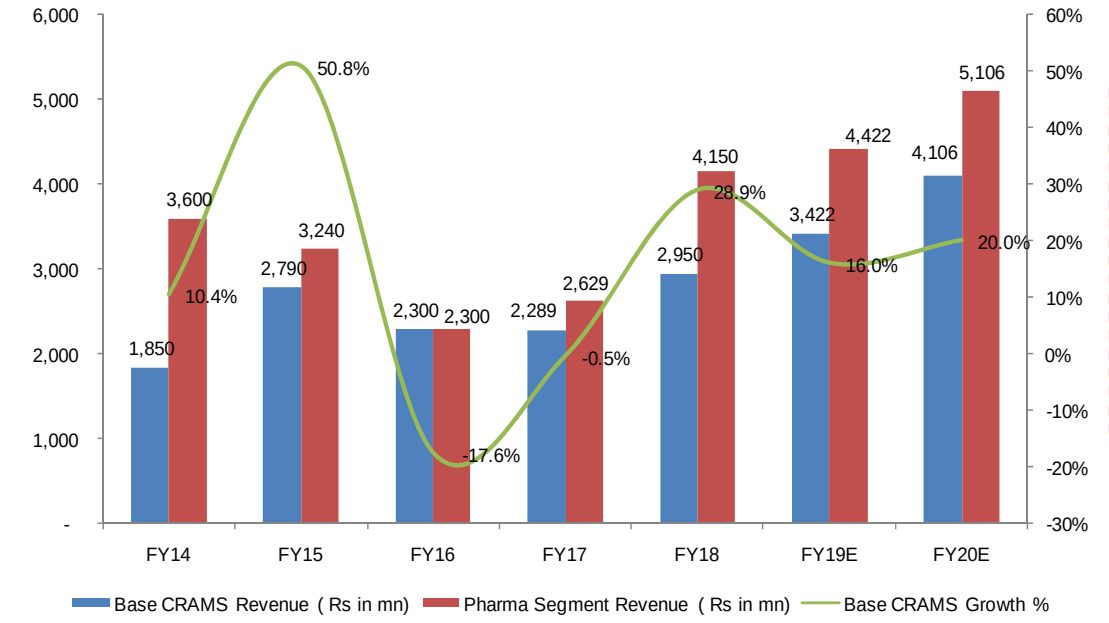
With increasing cost of research and lower probabilities of success in replacing existing medications the market for outsourcing to cost effective and more importantly organization of proven capabilities is increasing. With ~90% contribution to total revenue CRAMS remains the primary business for SLS. The company has vast experience due to successful delivery 755+ projects and has 250+ scientists working on CRAMS projects. In Base CRAMS (~55- 60% of revenue), SLS supplies intermediates to innovator companies for NCE development. Generally, SLS gets a new product at phase I, which gradually moves further based on the innovator's success; the volume of intermediates supplied increases 10 times if the product moves to phase II and, similarly, if it moves to phase III. The profit margins in supplies for phase I are very low due to low volumes and involvement in R&D; margins improve substantially in phase II and phase III, however. The Pharma segment, which saw 10% contraction in revenue growth over FY15-17, has shown signs of traction in growth during FY18. Overall Pharma revenue growth in FY19 is expected at ~6% with a FY18-20 CAGR estimated at ~10.9%. 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%-10% to custom synthesis revenues. SLS remains a preferred supplier for most of its clients. We expect revenue from base CRAMS business to register a 18% CAGR over FY18-20E driven by the consistent rise in number of active molecules and more molecules in Phase II trial for the innovators.

Europe and USA accounts ~84% of overall revenue



Source: Company, BP Equities Research

CRAMS revenue to recover and remain steady going forward



Source: Company, BP Equities Research

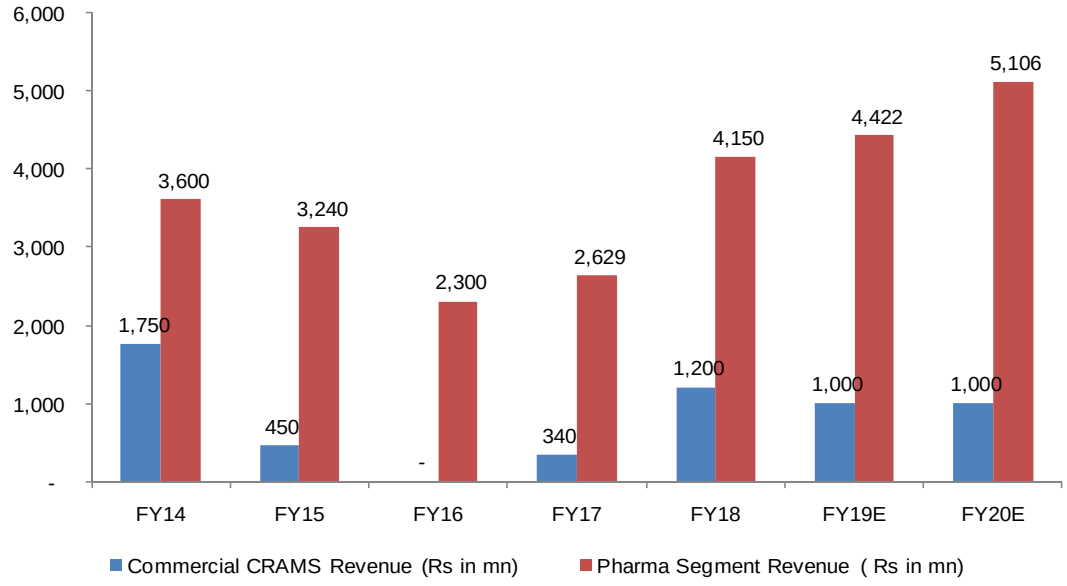
- ⇒ India-The company sells Bulk Drugs and Intermediates and Fine Chemicals.
- ⇒ USA -The company sells Intermediates
- ⇒ Europe-The company sells Bulk Drugs and Intermediates
- ⇒ Others -The company sells

Commercial CRAMS: Flattish revenue for FY19/20E

Although the company has been in CRAMS from FY06, it has reached the commercialization threshold with three molecules during FY15. The Commercial CRAMS is a high value, high margin business involving supply of intermediates for NCE's that are already launched by innovators companies. The three molecules addressing Rheumatoid Arthritis, Diabetes and Depression for US and EU based clients have generated major part of revenues of Rs. 1.200mn in FY18 at 38.7% CAGR over FY15-18. During FY18, SLS has also received its first order for the supply of intermediates for a women's health product for an NDA filling. We expect revenue would increase gradually based on a ramp-up in sales for the innovator in its home area and a launch of such products in new territories and countries. The company is among the 2-3 suppliers for the intermediary and the exclusivity is expected to last up to FY21. We project overall commercial CRAMS revenue to cap at Rs 1,000mn over FY19/20E, however, one more addition to commercial phase further enhances overall revenue for the segment. However, we haven't factored any molecule commercialization in our estimates.

Repeat order from commercialized molecules to become an annuity business for the company

Commercial CRAMS revenue expected to remain Flat over FY19-20E



Source: Company, BP Equities Research

CRAMS Projects	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Phase - I	47	51	46	52	57	64	70	72
Phase - II	30	32	41	46	52	48	41	36
Phase- III	3	1	3	1	1	1	2	2
Commercial	0	0	0	0	0	0	0	3
Active	80	84	90	99	110	113	113	113

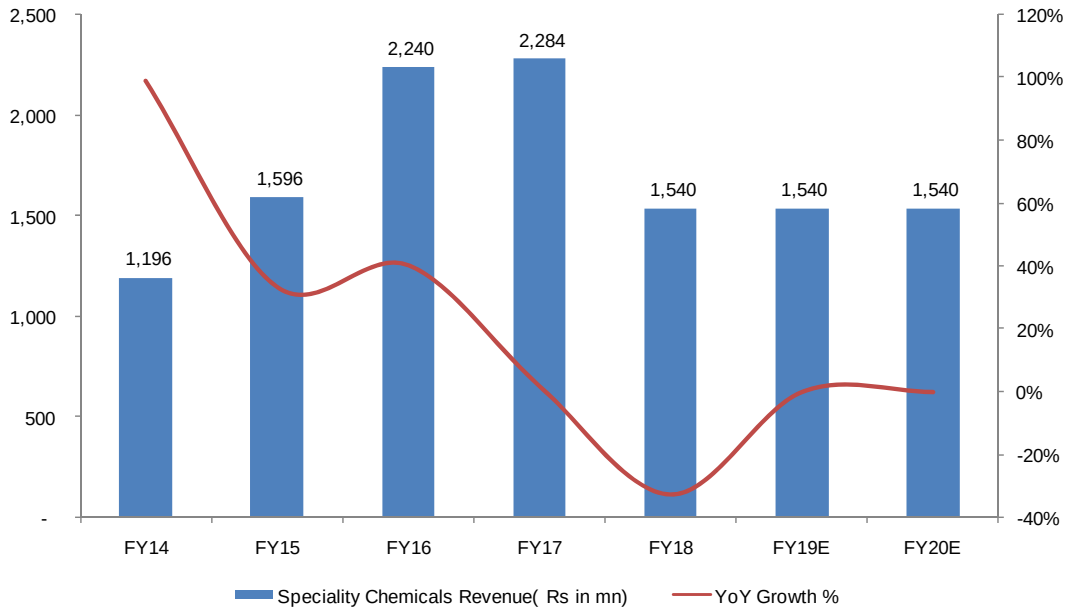
Source: Company

More molecules moving from phase I to phase II, III and commercialization would improve revenue growth and profitability

Specialty chemical –Generic competition to cap growth

SLS is also supplying intermediates for one specialty chemical product to a large global conglomerate operating in pharmaceuticals and agrochemicals. Supplies of this specialty chemical pertain to an agro -chemical product which has already been commercialized by the innovator and is under patent. During FY13-18 Specialty chemical CRAMS delivered strong revenue growth of 40% CAGR. However, due to generic competition post the patent expiry in some of the territory revenue have reduced during FY18. The next patients expected to expire after FY22 & beyond. Therefore, management expects specialty chemical business to deliver flat revenue growth till FY20E. Moreover, SLS is working on 2-3 new molecules, which is expected to get, commercialize in next 2-3 years. We expect speciality chemical business revenue to remain at same level in FY19 and FY20 at Rs 1,540 mn. Since opportunity size is unknown, we have not factored addition revenue from new launches in our estimates.

Speciality chemicals revenue to remain at same level



Source: Company, BP Equities Research

Developing a strong own NCE pipeline

The company also has its own NCE pipeline, which comprises 13 molecules including four molecules in various stages of clinical trials. Till date, the company has spent more than ~ Rs 6bn on the NCE R&D (entire R&D has been expensed to P&L). The company's most advanced stage product SUVN-502 for Alzheimer's is in Phase II clinical trials in the US and set to complete clinicals by mid-2019.

⇒ **SUVN-502 progressing towards final stage of Phase 2**

SUVN 502 is the advance molecule of Suven, which is a class of selective 5-HT6 receptor compound for the treatment of Alzheimer's disease. SUVN 502 entered phase 2 clinical trials in September 2015. The spending specific to this drug stands reflected only in consolidated numbers, as this spending is done through a US-based 100% subsidiary. Successful completion of phase 2 would result in partnership (in licensing) offers from global pharma companies which will help in monetizing the molecule. Management is confident about the success of SUVN-502 against its competitors (GSKs Axovant and Lundbecks Otsuka molecule in Phase-3) due to no side effects. Currently, SUVN 502 is undergoing phase 2 clinical trials in the US, with the total number of enrolled participants at ~450 patients. Another 87 patients are expected to be enrolled by Oct-18 and with last patient out in April-19, final study results expected by July-19. On Successful completion of phase 2 trails, will provide SLS huge opportunity to out licenses its product for further study. We believe that there would be good demand for such molecules from MNCs, considering the huge un-met medical requirement for these diseases in the US and non availability of many drugs for them.

Successful monetisation of SUVN 502 would further provide upside potential

The Drug Discovery, Development and Approval Process

	Discovery/ Preclinical Testing		Clinical Trials: Phase I	Clinical Trials: Phase II	Clinical Trials: Phase III		FDA		Phase IV
Years	6.5		1.5	2	3.5		1.5		
Test Population	Laboratory and animal studies	File IND at FDA	20 to 100 healthy volunteers	100 to 500 patient volunteers	1,000 to 5,000 patient volunteers	File NDA/BLA at FDA	Review process/ approval		Additional post-marketing testing required by FDA
Purpose	Assess safety, biological activity and formulations		Determine safety and dosage	Evaluate effectiveness, look for side effects	Confirm effectiveness, monitor adverse reactions from long-term use				
Success Rate	5,000 compounds evaluated		5 enter trials				1 approved		

Source: Industry, BP Equities Research

It take 10-15 years on average for an experimental drug to travel from the lab to U.S patients . Only five in 5,000 compounds that enter preclinical testing make it to human testing. One of these five tested in people is approved.

⇒ **Other Attempts**

A similar class of molecule idalopirdine of Denmark based pharmaceutical company Lundbeck created history in July 2013. Japanese drug maker Otsuka Pharmaceutical inlicensed with Lundbeck with an upfront fee of USD 150mn, milestone payments of up to USD 675mn and royalty on sales if it was launched successfully in the market. Three and half years later idalopirdine failed to prove its efficacy in its late stage clinical trial.

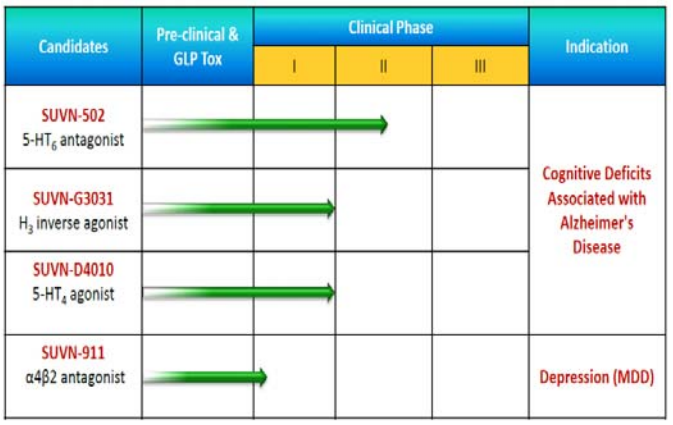
In December 2014, UK-based drug giant GlaxoSmithKline (GSK) had given up on a similar class of drug called Intepirdine or SB742457 after less than encouraging trial data. GSK offloaded the drug to Roivant Neurosciences, a US-based biopharmaceutical upstart founded by Indian-American Vivek Ramaswamy.

Company	Compound ID	Indication	Stage of Development
Lundbeck	Lu AE58054 (Idalopirdine)	Alzheimer's Disease	Phase-III
Roivant Neurosciences	RVT-101 (Intepirdine)	Alzheimer's Disease	Phase-III
Suven Life Sciences	SUVN-502	Alzheimer's Disease	Phase-II
Biotie Therapies	SYN120	Parkinson's Disease Dementia	Phase-II

Source: Company

⇒ **SUVN G3031 : Next NCE to enter Phase 2 trails**

SUVN G3031 is a selective H3 inverse agonist class of drug, which is used to treat cognitive dysfunction associated with AD/Schizophrenia. Currently, SUVN G3031 is set to enter Phase 2 clinical trials in the US and SLS is expected to spend ~US$5mn over the next two years starting FY19.



Source: Company

ANDA fillings in progress

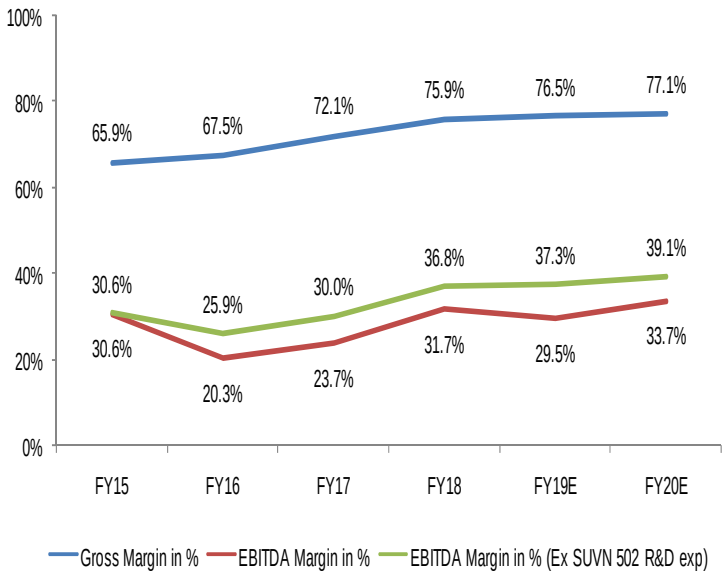
The company is working on high value, low volume niche molecules with lower market size and limited completion due to complex chemistry. The company has a US FDA-approved formulations unit at its Pashamylaram, Andhra Pradesh, plant which has been built for SLS's own NCE pipeline for innovative R&D. Utilizing its research strength, the company plans to file 6-8 ANDAs in next two years with average 3-4 ANDA fillings. The company has started by out licensing its Malathion ANDA to Taro Pharmaceuticals till 2026, with an exclusive right to distribute and market in USA, Canada and Maxico. The company has earned Rs.260mn as Royalty payment from Taro during last two years. The company's experience in chemistry development and the financial leeway afforded by the significant margins allow the company to pursue such niche spaces with limited scope and also competition.

Financial performance to improve further

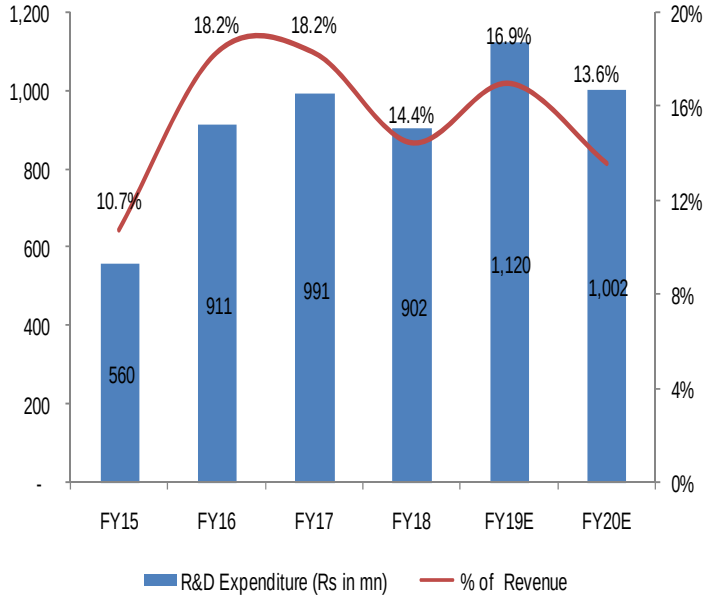
SLS Life has witnessed strong growth in revenue of 22.6% CAGR, whereas operating profit has shown growth of 42.4% CAGR over FY11 to FY18. With improved operating efficiency, we expect the EBITDA margin to expand at a higher rate than the gross margin due to lower than average R&D expense of 15.4% in FY19-20E compared to average 17% during FY16-18. We expect R&D spending on consolidate level to stand at ~Rs1,146-1,002mn annually for FY19-20E with overall R&D spend rate as % of revenue expected to peak out in FY19 at about 17.3% of sales and expected to decline to about to 14% by FY20E. PAT has grown at a rate lower to EBITDA due to increase in the effective tax rate from 28.9% in FY14 to 36.7% in FY17.Going ahead, the management expects tax rate to remain at 30% level. There has been deterioration in RoE from 21.9% to 17.2% in FY13 and FY18 respectively on the back of equity dilution due to Rs 2,000mn QIP in FY14. We expect return ratios are set to remain in the range of 15-18%, as growth normalizes and R&D run-rate peaks out.

Strong profitability to improve cash position, leading to a strong balance sheet

EBITDA Margin (Ex NCE) highest among peers

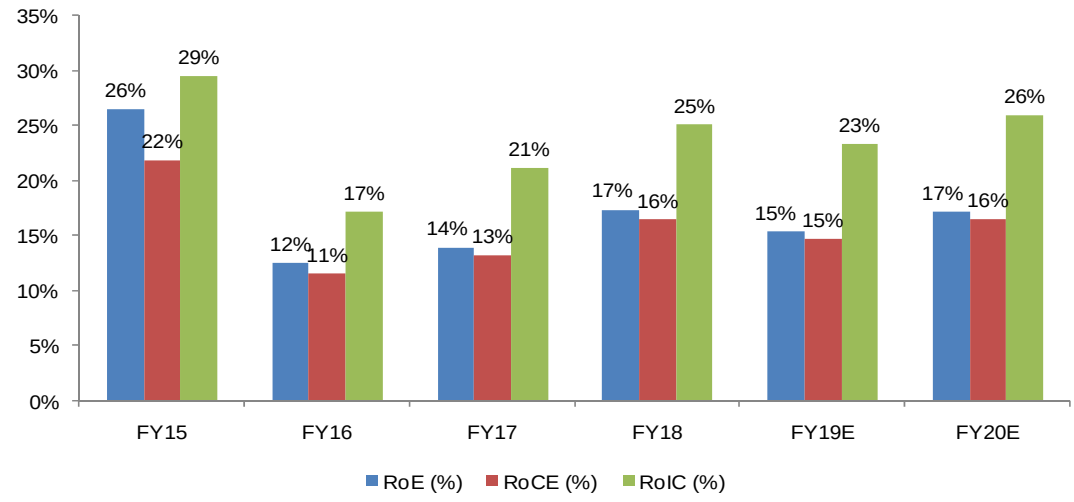


R&D expense to peak out in FY19E



Source: Company, BP Equities Research

RoE ,RoCE and RoIC trend



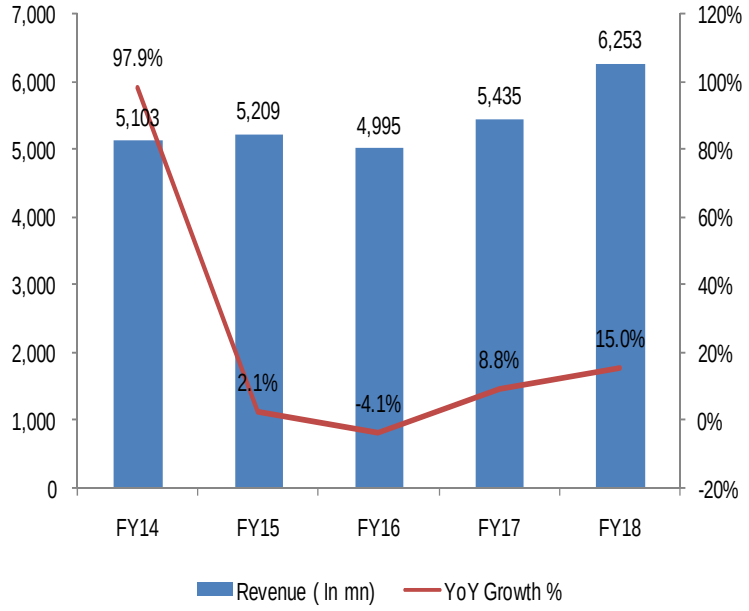
ROIC gives a better representation of the underlying profitability/return on capital

Source: Company, BP Equities Research

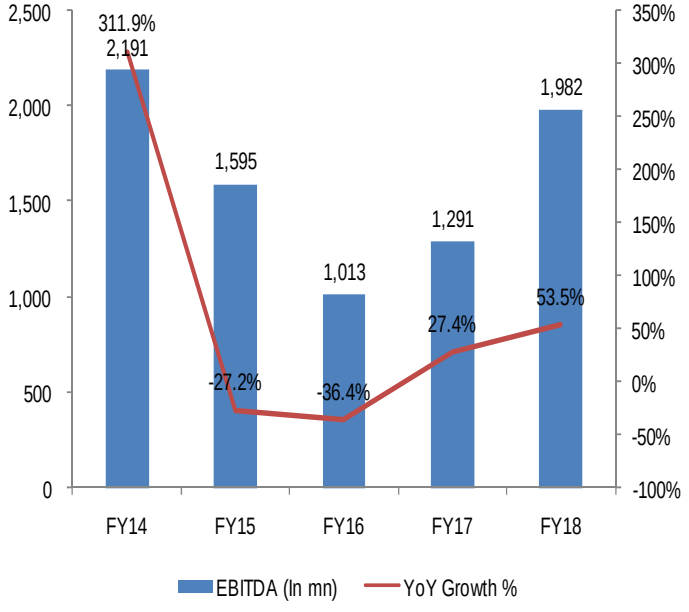
Company Background

Suven Life Sciences (SLS) has base operations in providing Contract Research and Manufacturing Services (CRAMS) support to New Chemical Entity (NCE) molecules from FY95 and has completed over 800 innovation assistance projects. The company partners with innovators for NCE molecule development and currently has 109 active projects as on March, 31, 2018. The company is also supplying a speciality intermediate and has opened a facility in Vizag .The company has been working on NCE molecule development from FY06. It has 13 molecules in pipeline; leading amongst them is SUVN-502 entering Phase-II A trials and three other molecules in US-IND stages. SLS also plans to enter formulations space with 4 ANDA (Abbreviated New Drug Application) and one already out licensed to Taro and generated close to Rs260 million during the last two years. With 92% revenue from overseas market, SLS has business relationships with 70+ clients across the globe.

Revenue trend

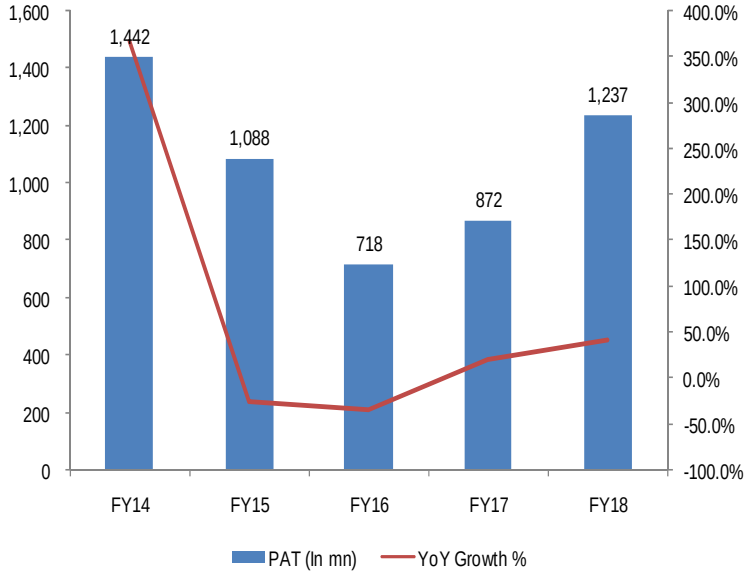


EBITDA trend

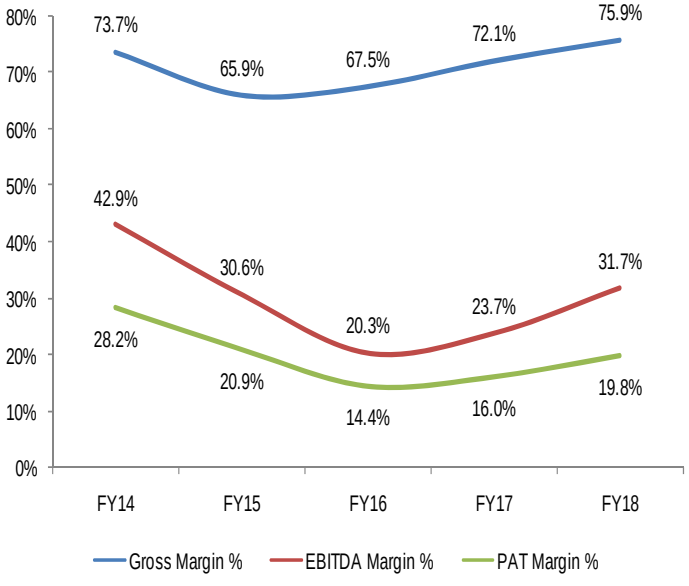


Source: Company, BP Equities Research

Net profit trend



Gross /EBITDA/ PAT Margin trend



Source: Company, BP Equities Research

Key Milestones	
1989	Suven Pharmaceuticals Pvt. Ltd. is incorporated
1991	Expands into Fine Chemical Intermediates
1994	Initiates CRAMS business model (Contract Research And Manufacturing Services)
1995	Goes public (IPO)
2002	Commissions cGMP Lab at Suven Research Center at Hyderabad
2006	Suven and Lilly establish Drug Discovery Collaboration
2007	Suven Unit III cGMP facility is accepted by USFDA for manufacture of API's
2009	Unit 1 receives US FDA acceptance
2014	Receives US FDA acceptance for Pashamylaram's unit
2015	SUVN 502 – Completes phase 1b clinical trial under US-IND
2015	Suven facility at JNPC, Vishakapatnam, Andhra Pradesh commences commercial operation
2016	SUVN-D4010 Phase 1 clinical trial completed successfully in the US
2016	Successful USFDA inspection of Pashamylaram unit
2017	Announces initiation of Phase 1 Clinical Trial and First Dosing of SUVN-911, a nAChRs antagonist for MDD

Source: Company, BP Equities Research

Suven LifeScience Ltd - Management Details			
Name	**Age**	**Designation**	**Qualifications**
Venkateswarlu Jasti	69 Years	Chairman & CEO	M Pharma, M.S (Indus. Pharmacy)
Sudharani Jasti	64 Years	Whole-time Director	B.Sc
Dr. NVS Ramakrishna	56 Years	Executive Director	M. Sc., Ph.D

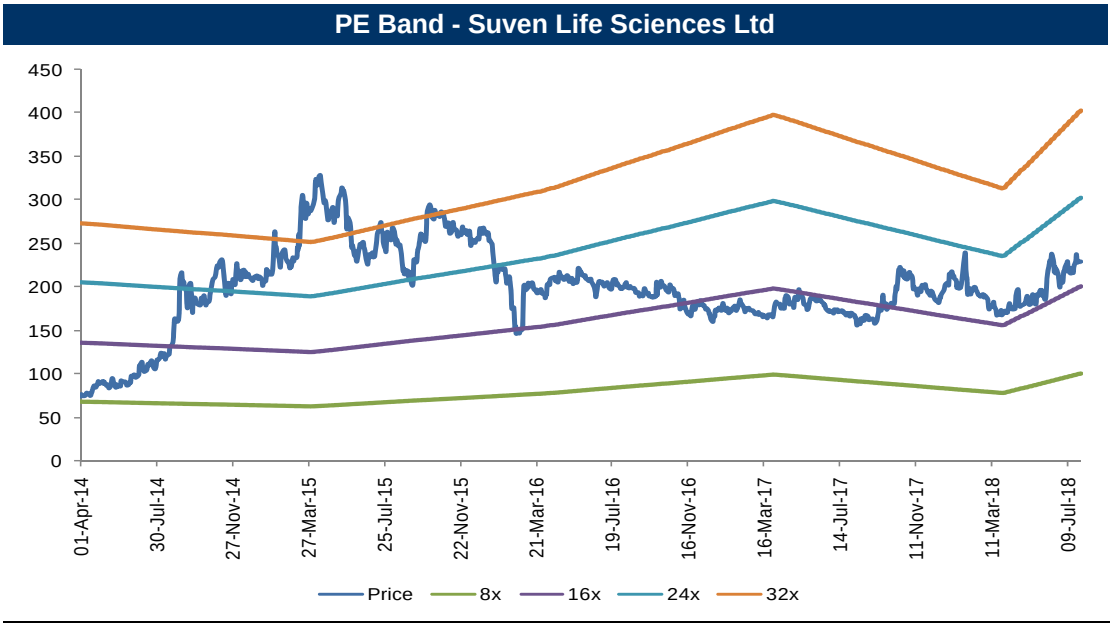
Source: Company, BP Equities Research

⇒ **Peer group comparison**

Company	CMP	M Cap	P/E		EPS		EV/EBITDA		RoE (%)	
	(Rs.)	(Rs. Bn)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Suven Life Sciences	**222**	**28**	**22.7**	**17.6**	**9.8**	**12.6**	**14.2**	**10.9**	**15.3**	**17.1**
Dishman Carbogen	254	41	18.4	14.2	13.8	17.9	9.4	7.9	6.0	7.3
Divis Laboratories *	1207	320	28.1	24.4	42.9	49.6	19.2	16.4	18.1	19.0

*Source: BP Equities Research, * Bloomberg estimate*

⇒ **PE Band**



Source: BP Equities Research, Ace Equity

Key Risks and concerns:

⇒ Foreign currency fluctuations: SLS earns close to 92% of revenues from exports exposing it to significant currency fluctuation risk.

⇒ Risk of NCE failure: The Company has developed a well diversified portfolio of 13 molecules. Any set back in the long drawn process of the NCE development will have an impact in the short term. It has to be note that the company does not have any downside financial risk in any event of failure or set back of approvals as the financing is by equity sources and balance sheet does not carry any of the assets under development.

⇒ Regulatory slowdown in approvals: Even as the company is not involved in the approvals of client products its supplies intermediates to and significant increase in rejections could significantly impact the revenues of the company across streams.

Valuation Summary	FY20E
Suven Life Sciences Ltd	
Base Business EPS	13
EPS Growth %(CAGR FY18-20E)	14%
Assigned PE	22
Target Price	**278**
(Implied PEG Ratio considering next 2 years: 1.3)	
Add: probability-adjusted DCF value per share of SUVN 502 (Discount rate :95%)	20
Target price (Rs)	**298**
Current Market Price	222
Upside Potential (%)	**34.2%**

Source: Company, BP Equities Research

We have valued SLS's base business by assigning 22x to its FY20 earning estimates and We value the NCE assuming a payoff on similar lines to a recent deal in this space. On conservative basis, we have valued SUVN502 (NCE) at Rs 20/ per share (Probability-adjusted DCF value per share of at Discount rate :95%). We arrive at a target price of Rs 298 (potential upside of 34% from CMP) for an investment horizon of 15-18 months.

Valuation & Outlook

SLS can scale up both commercial supplies (as client market expands) and out-licensed ANDAs (as 3-4 more ANDA filings materialize). While the company's portfolio of CRAMS projects in higher phases support the growth of CRAMS, they would also act as feeder for commercialized supplies and speciality intermediates going forward. Considering the expected mid teen, adjusted PAT CAGR over FY18-20E with upward potential, the strong balance sheet, improving return ratios and good corporate governance practices, we are optimistic about the long-term growth prospect of the company. At the CMP (Rs 222), the stock is trading at 22.5x its FY19E EPS of Rs 9.8 and 17.6x its FY20E EPS of Rs 12.6. We initiate coverage on the stock & recommend **'BUY'** rating with target price of Rs 298 per share. Our target price is based on 22x FY20E (20% discount to two year average P/E 27.8) earnings for base business at Rs 278 and NCE valued at Rs 20/ share assuming a payoff on similar lines to a recent deal in this space.

Profit & Loss A/c (Consolidated)						
YE March (Rs. mn)	**FY15**	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Revenue	**5,209**	**4,995**	**5,435**	**6,253**	**6,609**	**7,391**
Growth %	*2.1%*	*-4.1%*	*8.8%*	*15.0%*	*5.7%*	*11.8%*
Total Revenue	**5,209**	**4,995**	**5,435**	**6,253**	**6,609**	**7,391**
Less:						
Raw Material Consumed	1,776	1,626	1,518	1,509	1,555	1,696
Employee Cost	318	356	522	613	668	728
Other Expenses	1,520	1,999	2,104	2,149	2,438	2,476
Total Operating Expenditure	**3,614**	**3,982**	**4,145**	**4,271**	**4,661**	**4,899**
EBITDA	**1,595**	**1,013**	**1,291**	**1,982**	**1,948**	**2,491**
Growth %	*-27.2%*	*-36.4%*	*27.4%*	*53.5%*	*-1.7%*	*27.9%*
Less: Depreciation	118	175	214	213	229	274
EBIT	**1,477**	**838**	**1,077**	**1,769**	**1,719**	**2,217**
Growth %	*-29.7%*	*-43.2%*	*28.4%*	*64.3%*	*-2.8%*	*29.0%*
Interest Paid	47	59	57	46	41	35
Non-operating Income	86	196	211	233	250	290
Extraordinary Income	0	0	0	0	0	0
Profit Before tax	**1,516**	**976**	**1,231**	**1,955**	**1,928**	**2,472**
Tax	428	257	359	718	675	865
Net Profit	**1,088**	**718**	**872**	**1,237**	**1,253**	**1,607**
Adjusted Profit	**1,088**	**718**	**872**	**1,237**	**1,253**	**1,607**
Reported Diluted EPS Rs	**8.5**	**5.6**	**6.8**	**9.7**	**9.8**	**12.6**
Growth %	*-24.6%*	*-33.9%*	*21.3%*	*41.9%*	*1.3%*	*28.2%*
Adjusted Diluted EPS Rs	**8.5**	**5.6**	**6.8**	**9.7**	**9.8**	**12.6**
Growth %	*-24.6%*	*-33.9%*	*21.3%*	*41.9%*	*1.3%*	*28.2%*

Source: Company, BP Equities Research

Common Sized Profit & Loss Account						
YE March (Rs. mn)	**FY15**	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Total Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Less:						
Raw Material Consumed	34.1%	32.6%	27.9%	24.1%	23.5%	22.9%
Employee Cost	6.1%	7.1%	9.6%	9.8%	10.1%	9.8%
Other Expenses	29.2%	40.0%	38.7%	34.4%	36.9%	33.5%
Total Operating Expenditure	**69.4%**	**79.7%**	**76.3%**	**68.3%**	**70.5%**	**66.3%**
EBITDA	**30.6%**	**20.3%**	**23.7%**	**31.7%**	**29.5%**	**33.7%**
Depreciation	2.3%	3.5%	3.9%	3.4%	3.5%	3.7%
Interest Paid	0.9%	1.2%	1.0%	0.7%	0.6%	0.5%
Non-operating Income	1.6%	3.9%	3.9%	3.7%	3.8%	3.9%
Extraordinary Items	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Profit Before Tax	**29.1%**	**19.5%**	**22.6%**	**31.3%**	**29.2%**	**33.4%**
Current tax	8.2%	5.2%	6.6%	11.5%	10.2%	11.7%
Profit After Tax	**20.9%**	**14.4%**	**16.0%**	**19.8%**	**19.0%**	**21.7%**
Adjusted Profit	**20.9%**	**14.4%**	**16.0%**	**19.8%**	**19.0%**	**21.7%**

Source: Company, BP Equities Research

Cash Flows (Consolidated						
YE March (Rs. Mn)	**FY15**	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
PAT	**1,087.5**	**718.5**	**871.9**	**1,236.9**	**1,253.2**	**1,606.7**
(Less)/Add: Extraordinary Income/Expense	0.0	0.0	0.0	0.0	0.0	0.0
Less: Non Operating Income	(85.8)	(196.2)	(210.9)	(232.7)	(250.0)	(290.0)
Add: Depreciation	117.8	175.0	214.1	213.1	229.5	274.5
Add: Interest Paid	47.1	58.8	56.8	46.3	40.7	35.0
Tax Adjustment	0.0	0.0	0.0	0.0	0.0	0.0
Operating Profit before Working Capital Changes	**1,166.5**	**756.1**	**931.9**	**1,263.5**	**1,273.4**	**1,626.2**
(Inc)/Dec in Current Assets	184.2	(873.1)	(2,766.8)	(267.2)	(141.8)	(265.4)
Inc/(Dec) in Current Liabilities	(273.6)	873.1	(88.9)	185.2	390.5	278.1
Changes in Inventory	(31.8)	(16.6)	(90.5)	(469.5)	(79.5)	(174.3)
Net Cash Generated From Operations	**1,045.4**	**739.4**	**(2,014.3)**	**712.0**	**1,442.5**	**1,464.5**
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	(231.1)	(346.4)	(237.6)	(267.7)	(832.3)	(900.0)
(Inc)/Dec in Capital Work In Progress	(941.9)	998.2	(25.2)	(150.3)	0.0	0.0
(Inc)/Dec in Investment (Strategic)	16.6	61.8	(4.2)	(121.7)	(18.8)	(20.6)
(Inc)/Dec in Investment (Others)	0.0	(0.7)	0.0	0.0	0.0	0.0
Add: Non Operating Income Income	85.8	196.2	210.9	232.7	250.0	290.0
(Inc)/Dec in Intangible Assets	(48.5)	48.5	0.0	0.0	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	**(1,119.1)**	**957.5**	**(56.1)**	**(306.9)**	**(601.1)**	**(630.6)**
Cash Flow from Financing Activities						
Inc/(Dec) in Total Loans	190.0	(499.7)	(60.1)	(44.0)	0.0	(100.0)
Inc/(Dec) in Reserves & Surplus	1,927.1	(104.2)	(27.5)	(41.9)	0.0	0.0
Inc/(Dec) in Equity	10.5	(0.0)	0.0	0.0	0.0	0.0
Dividend Paid	(76.4)	(254.6)	(127.3)	(190.9)	(193.4)	(248.0)
Less: Interest Paid	(47.1)	(58.8)	(56.8)	(46.3)	(40.7)	(35.0)
Adjustments	186.2	(1,162.7)	19.8	34.5	(0.0)	(0.0)
Exceptional Item	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flow from Financing Activities	**2,190.3**	**(2,079.9)**	**(251.9)**	**(288.5)**	**(234.2)**	**(383.0)**
Net Inc/Dec in cash equivalents	**2,116.6**	**(382.9)**	**(2,322.3)**	**116.6**	**607.3**	**450.9**
Opening Balance	**680.3**	**2,796.9**	**2,414.0**	**91.7**	**208.3**	**815.5**
Closing Balance Cash and Cash Equivalents	**2,796.9**	**2,414.0**	**91.7**	**208.3**	**815.5**	**1,266.4**

Source: Company, BP Equities Research

Balance Sheet (Consolidated)						
YE March(Rs. mn)	**FY15**	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Liabilities						
Equity Capital	127	127	127	127	127	127
Reserves & Surplus	5,466	5,826	6,543	7,547	8,607	9,965
Equity	**5,593**	**5,953**	**6,670**	**7,674**	**8,734**	**10,092**
Net Worth	**5,593**	**5,953**	**6,670**	**7,674**	**8,734**	**10,092**
Minority Interest						
Net Deferred tax liability/(Asset)	250	(11)	23	280	280	280
Total Loans	**897**	**658**	**564**	**263**	**263**	**163**
Capital Employed	**6,740**	**6,600**	**7,257**	**8,217**	**9,277**	**10,535**
Assets						
Gross Block	2,905	3,252	3,489	3,757	4,589	5,489
Less: Depreciation	1,186	198	432	680	909	1,183
Net Block	**1,719**	**3,054**	**3,057**	**3,077**	**3,680**	**4,306**
Capital WIP	1,070	72	97	247	247	247
Investments	**123**	**62**	**66**	**188**	**206**	**227**
Others - A	0	1	1	1	1	1
Current Assets						
Inventories	818	835	925	1,395	1,474	1,648
Sundry Debtors	402	536	458	615	650	727
Cash and Bank Balance	2,797	2,414	92	208	816	1,266
Current Investments	0	1	3,009	2,787	2,787	2,787
Loans and Advances	341	1,090	999	1,153	1,219	1,363
Other Current Assets	412	402	329	506	547	592
Total Current Assets	**4,770**	**5,277**	**5,812**	**6,665**	**7,494**	**8,384**
Less: Current Liabilities & Provisions						
Sundry Creditors	439	356	379	568	879	983
Provisions	128	1,027	935	1,090	1,152	1,289
Other Current Liabilities	424	482	461	303	320	358
Total Current Liabilities & Provisions	**992**	**1,865**	**1,776**	**1,961**	**2,351**	**2,629**
Capital Applied	**6,740**	**6,600**	**7,257**	**8,217**	**9,277**	**10,535**

Source: Company, BP Equities Research

Suven Life Sciences Ltd. — Initiating Coverage

Key Ratios (Consolidated)						
YE March (Rs. mn)	**FY15**	**FY16**	**FY17**	**FY18**	**FY19E**	**FY20E**
Key Operating Ratios						
EBITDA Margin (%)	30.6%	20.3%	23.7%	31.7%	29.5%	33.7%
Tax / PBT (%)	28.2%	26.4%	29.2%	36.7%	35.0%	35.0%
Net Profit Margin (%)	20.9%	14.4%	16.0%	19.8%	19.0%	21.7%
RoE (%)	26.4%	12.4%	13.8%	17.2%	15.3%	17.1%
RoCE (%)	47.5%	19.9%	14.1%	19.2%	23.3%	27.8%
Current Ratio (x)	4.8x	2.8x	3.3x	3.4x	3.2x	3.2x
Dividend Payout (%)	7.0%	35.4%	14.6%	15.4%	15.4%	15.4%
Book Value Per Share (Rs.)	43.9	46.8	52.4	60.3	68.6	79.3
Financial Leverage Ratios						
Debt/ Equity (x)	0.2x	0.1x	0.1x	0.0x	0.0x	0.0x
Interest Coverage (x)	33.9x	17.2x	22.7x	42.8x	47.8x	71.2x
Growth Indicators %						
Growth in Gross Block (%)	8.6%	11.9%	7.3%	7.7%	22.2%	19.6%
Sales Growth (%)	2.1%	(4.1%)	8.8%	15.0%	5.7%	11.8%
EBITDA Growth (%)	(27.2%)	(36.4%)	27.4%	53.5%	(1.7%)	27.9%
Net Profit Growth (%)	(24.6%)	(33.9%)	21.3%	41.9%	1.3%	28.2%
Diluted EPS Growth (%)	(24.6%)	(33.9%)	21.3%	41.9%	1.3%	28.2%
Turnover Ratios						
Debtors Days	28	39	31	36	36	36
Creditors Days	31	26	33	49	49	49
Inventory Days	57	61	62	81	81	81

Source: Company, BP Equities Research

BP WEALTH

Research Desk	Tel: +91 22 61596464

Institutional Sales Desk	Tel: +91 22 61596403/04/05

Disclaimer Appendix

Analyst (s) holding in the Stock : Nil

Analyst (s) Certification:

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP EQUITIES Pvt. Ltd (Institutional Equities).

General Disclaimer

This report has been prepared by the research department of BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice. BP EQUITIES Pvt. Ltd or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. BP EQUITIES Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

BP EQUITIES Pvt. Ltd and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP EQUITIES Pvt. Ltd or any of its affiliates to any registration or licensing requirement within such jurisdiction.

Corporate Office:
4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:
24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001

BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392