

### In cross roads of acquisition

- Suven's revenues were at Rs3.5bn (in line) in Q3FY23, declined by 10% YoY due to lower CRAMs sales offset by higher growth in specialty chemicals.
- Gross margins at 69% (below est) contracted 49bps/11bps YoY/QoQ. EBITDA stood at Rs1.5bn declined by 21% YoY & grew 47% QoQ with EBITDA margin at 41.5% contracted by 605bps YoY and expanded by 558bps QoQ. Despite higher contribution from specialty chemical segment, the company managed EBITDA margin of 40% + due to better product mix.
- While we inherently like Suven's CDMO business, we await more clarity on Advent transaction. Therefore, we put our rating 'Under Review'.

### Specialty chemicals benefitted from seasonality while CDMO declined

CDMO pharma declined 51% YoY on lower order traction in Q3FY23. Commercialized products are seven where sales of four products are steady while expecting a repeat order for women health product in FY24. Specialty segment grew 84%YoY benefitted from seasonality. One product is under development which may get commercialized in next few years which has annual revenue potential of Rs400-500mn. With the healthy order book, we expect CRAMs/Specialty revenue CAGR of 15%/4% over FY23E-25E.

### Valuation and Outlook

Advent international (Global PE) has made an offer to acquire 50.1% stake in Suven Pharma. Post the transaction (but pre-merger of Cohance Lifesciences), Jasti's holding will be 9.9% with a lock-in period of 18 months. Further, an open offer is being made representing 26% of the voting share capital of Suven Pharma at a price of Rs495/ share in line with current market cap. The acquisition is expected to be completed in next 5-6 months. Advent further intends to merge Cohance Lifesciences with Suven Pharma. Cohance Lifesciences (CDMO+ API), created in Nov'22 was an amalgamation of RA chemical, ZCL Chemical and Arva Labs. Post the merger, Jasti will act as a strategic advisor to the company. There will be change in ownership and hence the current business dynamics and strategies of Suven would be subject to change. Also the strategy to take business ahead and unlock shareholder's value remains unclear. Therefore we would like to put our rating 'under review' until we get more clarity and comfort on the above.

### Q3FY23 Result (Rs Mn)

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Revenue	3,538	3,916	(9.7)	2,784	27.1
Total Expense	2,071	2,056	0.8	1,785	16.0
EBITDA	1,467	1,860	(21.2)	999	46.8
Depreciation	122	105	16.5	120	1.7
EBIT	1,344	1,755	(23.4)	878	53.0
Other Income	130	647	(79.9)	109	19.2
Interest	14	7	86.4	3	371.3
EBT	1,461	2,395	(39.0)	985	48.3
Tax	384	794	(51.7)	264	45.2
RPAT	1,077	1,601	(32.7)	721	49.5
APAT	1,077	1,601	(32.7)	721	49.5
			(bps)		(bps)
Gross Margin (%)	69.0	69.5	(49)	69.1	(11)
EBITDA Margin (%)	41.5	47.5	(605)	35.9	558
NPM (%)	30.4	40.9	(1044)	25.9	456
Tax Rate (%)	26.3	33.2	(689)	26.8	(56)
EBIT Margin (%)	38.0	44.8	(682)	31.6	644

CMP	Rs 485
NIFTY	17,854

### Scrip Details

Equity / FV	Rs 255mn / Rs 1
Market Cap	Rs 123bn
	USD 1.5bn
52-week High/Low	Rs 632/ 391
Avg. Volume (no)	3,77,659
Bloom Code	SUVENPHAR IN

Price Performance	1M	3M	12M
Absolute (%)	(2)	10	(13)
Rel to NIFTY (%)	(3)	11	(19)

### Shareholding Pattern

	Jun'22	Sep'22	Dec'22
Promoters	60.0	60.0	60.0
MF/Banks/Fls	10.9	10.9	11.4
FIIs	7.6	7.6	8.1
Public / Others	21.6	21.6	20.6

### Valuation (x)

	FY23E	FY24E	FY25E
P/E	30.0	26.3	23.7
EV/EBITDA	21.4	18.3	16.1
ROE (%)	24.8	24.0	22.4
RoACE (%)	22.8	22.3	21.1

### Estimates (Rs bn)

	FY23E	FY24E	FY25E
Revenue	13.6	14.9	16.5
EBITDA	5.6	6.4	7.1
PAT	4.1	4.7	5.2
EPS (Rs.)	16.1	18.4	20.5

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**Exhibit 1: Quarterly revenue mix**

Particulars (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY22	9MFY23	YoY (%)
CDMO - Pharma	1,312	2,661	(50.7)	1,084	21.0	5,639	4,499	(20.2)
CDMO - Spec Chem	1,923	1,046	83.7	1,515	26.9	3,269	4,612	41.1
Formulations & Other services	250	208	20.4	184	35.6	656	547	(16.7)
<b>Total</b>	<b>3,485</b>	<b>3,916</b>	<b>(11.0)</b>	<b>2,784</b>	<b>25.2</b>	<b>9,564</b>	<b>9,657</b>	<b>1.0</b>

Source: Company, DART

**Exhibit 2: Actual vs DART estimates**

Particulars (Rs mn)	Q3FY23	Q2FY23E	Variance (%)
Revenue	3,538	3,562	(0.7)
EBITDA	1,467	1,532	(4.2)
EBITDA margin (%)	41.5	43.0	(154bps)
PAT	1,077	1,091	(1.3)
EPS (Rs)	4.2	4.3	(1.3)

Source: Company, DART

**Exhibit 3: Change in estimates**

Particulars (Rs mn)	Old estimates			New estimates			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	13,702	15,279	17,064	13,584	14,892	16,516	(0.9)	(2.5)	(3.2)
EBITDA	5,715	6,609	7,389	5,583	6,439	7,149	(2.3)	(2.6)	(3.3)
EBITDA Margin (%)	41.7	43.3	43.3	41.1	43.2	43.3	(61bps)	(2bps)	(2bps)
PAT	4,137	4,657	5,188	4,111	4,696	5,206	(0.6)	0.8	0.4
EPS (Rs)	16.3	18.3	20.4	16.1	18.4	20.5	(0.6)	0.8	0.4

Source: Company, DART

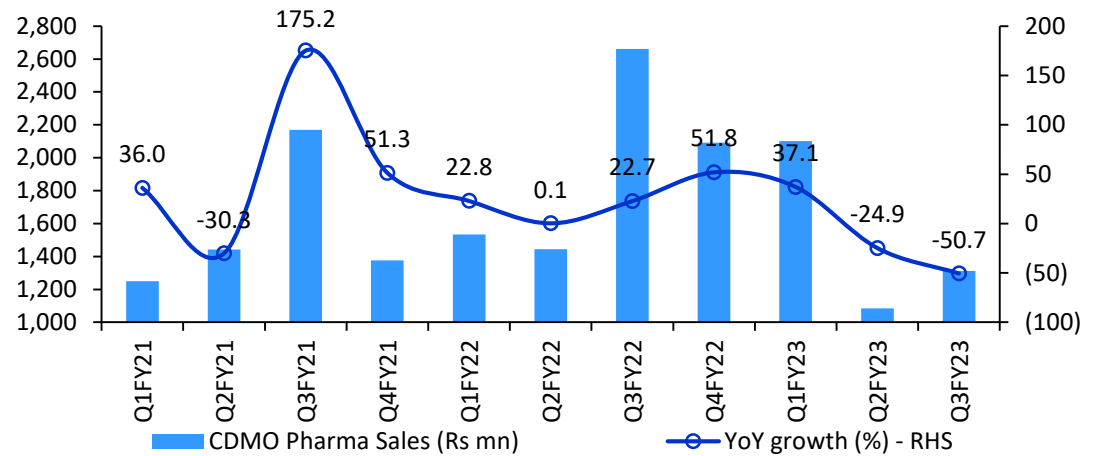
**Exhibit 4: Annual revenue assumption table**

Particulars (Rs Mn)	FY21	FY22	FY23E	FY24E	FY25E
CDMO	6,237	7,730	6,725	7,734	8,894
% of revenue	61.8	58.5	49.5	51.9	53.8
% growth	33.2	23.9	(13.0)	15.0	15.0
Specialty Chemicals	3,059	4,632	5,975	6,155	6,462
% of revenue	30.3	35.1	44.0	41.3	39.1
% growth	0.6	51.4	29.0	3.0	5.0
Formulations & technical services	802	840	756	870	1,026
% of revenue	7.9	6.4	5.6	5.8	6.2
% growth	7.5	4.8	(10.0)	15.0	18.0
<b>Total Revenue</b>	<b>10,098</b>	<b>13,202</b>	<b>13,457</b>	<b>14,758</b>	<b>16,382</b>

Source: Company, DART

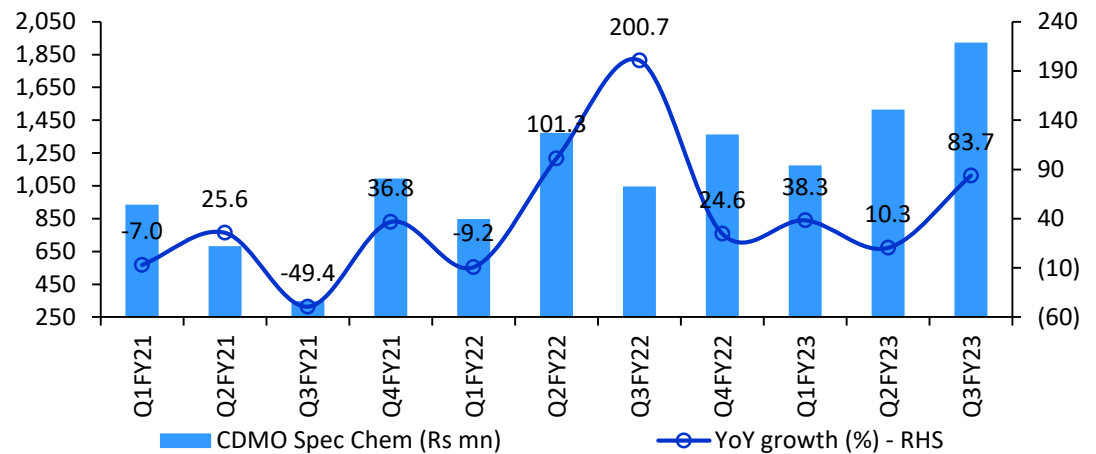
## Story in Charts

**Exhibit 5: Lower order traction led to decline in CDMO - Pharma**



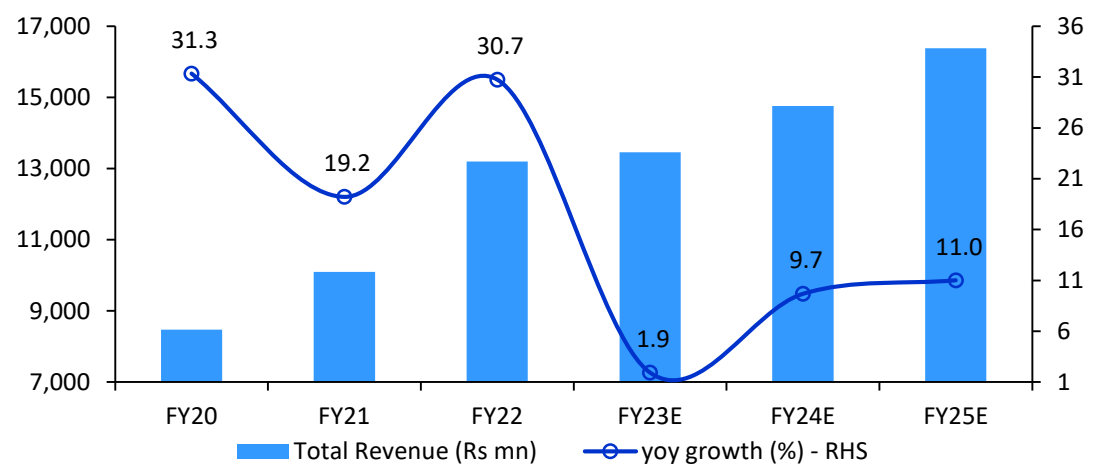
Source: Company, DART

**Exhibit 6: Strong specialty chemical growth momentum continued in Q3FY23**



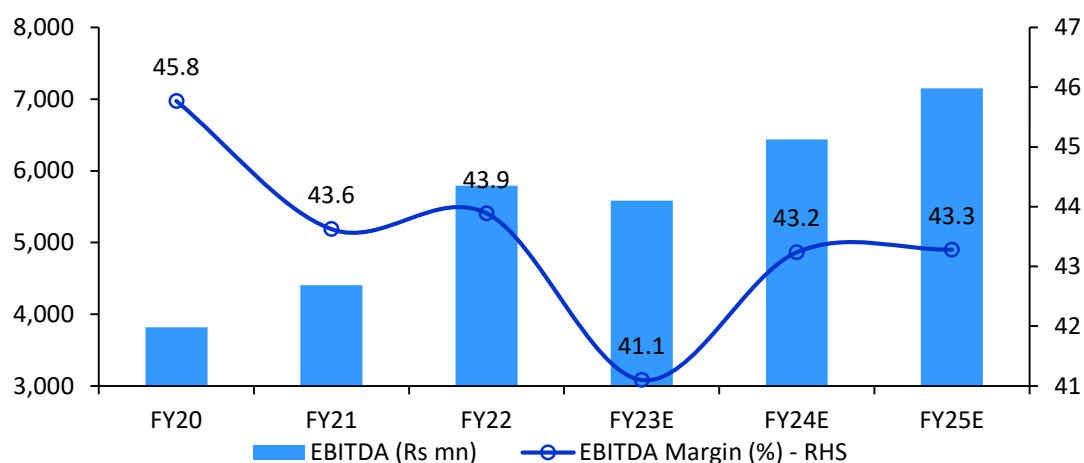
Source: Company, DART

**Exhibit 7: Expect revenue CAGR of 10% over FY23E-25E**



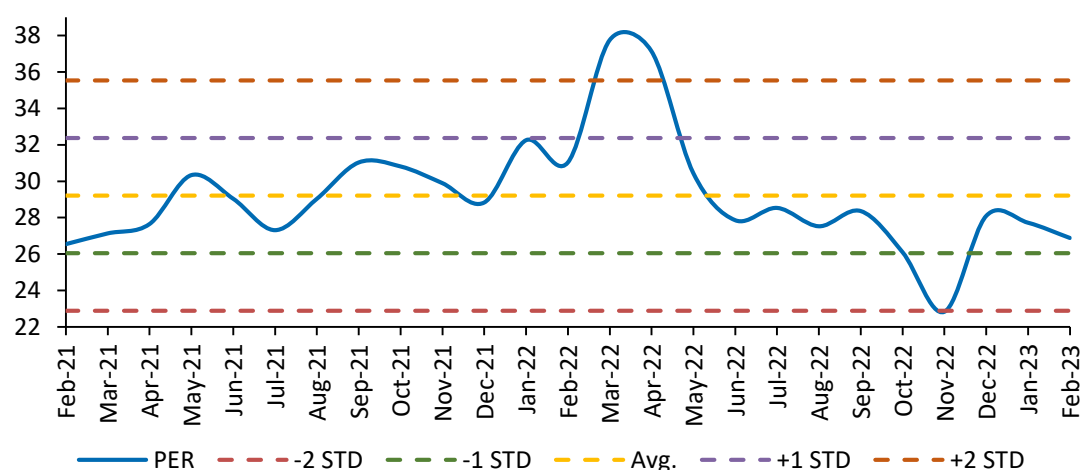
Source: Company, DART

**Exhibit 8: EBITDA margin to expand with pick up in CDMO segment**



Source: Company, DART

**Exhibit 9: One year forward P/E band**



Source: Company, DART

## Earning call KTAs

### Guidance

- CDMO Pharma business revenue growth is expected to be 10% in FY24.
- EBITDA margin guidance of 40% plus in Q4FY23 and FY24.

### CDMO Pharma

- Currently, seven products are commercialized till date and five are in pipeline.
- The company is seeing a shift in the CDMO businesses globally as most of the global companies want to reduce their dependence on China and looking to outsource their manufacturing in India.
- The patent expiry for the one of the pharma molecules is expected in FY25 but revenues coming from the molecule will not be affected for the next two to three years.

### Specialty chemicals

- Specialty chemicals saw good momentum in Q3FY23 due to seasonality.
- Third molecule had no sales contribution in Q3FY23 and the fourth molecule which is under development is expected to be supplied in CY24.

### Formulations

- Casper facility that was acquired last year is not yet generating revenue. It has a capacity of 1.2 billion tons and does not require any more investment. The facility is expected to contribute revenues in the next 12-15 months and break-even in 36 months from acquisition. Currently 10 ANDAs have been filed from this facility and the company is in process of filing more.

### Other Highlights

- On 26th Dec 2022, Advent International entered into a definitive agreement to acquire a 50.1% stake in Hyderabad-based Suven Pharmaceuticals from the Jasti family for Rs63.13bn. Also advent will make an open offer for acquisition of up to 6,61,86,889 fully paid-up equity shares of face value of Re 1 each representing 26% of the voting share capital of Suven Pharma from the Public Shareholders of Suven at a price of Rs 495/- per equity share.
- Post completion of acquisition, Suven would be merged with Cohance Pharma.
- Advent has filed for the necessary regulatory approvals and the acquisition is expected to be completed by August 2023.

## Financial Performance

### Profit and Loss Account

(Rs Mn)	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>13,202</b>	<b>13,584</b>	<b>14,892</b>	<b>16,516</b>
<b>Total Expense</b>	<b>7,408</b>	<b>8,001</b>	<b>8,453</b>	<b>9,368</b>
COGS	3,991	4,102	4,468	4,955
Employees Cost	1,005	1,223	1,191	1,321
Other expenses	2,412	2,676	2,794	3,092
<b>EBIDTA</b>	<b>5,794</b>	<b>5,583</b>	<b>6,439</b>	<b>7,149</b>
Depreciation	391	521	625	703
<b>EBIT</b>	<b>5,403</b>	<b>5,062</b>	<b>5,814</b>	<b>6,445</b>
Interest	62	40	39	39
Other Income	924	459	487	535
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>6,265</b>	<b>5,481</b>	<b>6,262</b>	<b>6,942</b>
Tax	2,138	1,370	1,565	1,735
RPAT	4,538	4,111	4,696	5,206
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>411</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>4,538</b>	<b>4,111</b>	<b>4,696</b>	<b>5,206</b>

### Balance Sheet

(Rs Mn)	FY22A	FY23E	FY24E	FY25E
<b>Sources of Funds</b>				
Equity Capital	255	255	255	255
Minority Interest	0	0	0	0
Reserves & Surplus	15,017	17,604	21,027	24,961
<b>Net Worth</b>	<b>15,272</b>	<b>17,858</b>	<b>21,282</b>	<b>25,215</b>
Total Debt	956	947	944	945
Net Deferred Tax Liability	677	690	705	720
<b>Total Capital Employed</b>	<b>16,905</b>	<b>19,495</b>	<b>22,930</b>	<b>26,880</b>

### Applications of Funds

Net Block	5,328	7,905	9,278	10,072
CWIP	300	300	300	300
Investments	1,388	1,424	1,460	1,498
<b>Current Assets, Loans &amp; Advances</b>	<b>11,280</b>	<b>11,302</b>	<b>13,461</b>	<b>16,744</b>
Inventories	2,834	2,916	3,197	3,546
Receivables	2,364	2,432	2,666	2,957
Cash and Bank Balances	473	1,226	2,513	4,772
Loans and Advances	3	4	4	4
Other Current Assets	794	874	961	1,057
<b>Less: Current Liabilities &amp; Provisions</b>	<b>1,391</b>	<b>1,435</b>	<b>1,568</b>	<b>1,734</b>
Payables	1,059	1,090	1,195	1,325
Other Current Liabilities	332	345	374	409
<i>sub total</i>				
Net Current Assets	9,889	9,867	11,893	15,010
<b>Total Assets</b>	<b>16,905</b>	<b>19,495</b>	<b>22,930</b>	<b>26,880</b>

E – Estimates

### Important Ratios

Particulars	FY22A	FY23E	FY24E	FY25E
<b>(A) Margins (%)</b>				
Gross Profit Margin	69.8	69.8	70.0	70.0
EBIDTA Margin	43.9	41.1	43.2	43.3
EBIT Margin	40.9	37.3	39.0	39.0
Tax rate	34.1	25.0	25.0	25.0
Net Profit Margin	34.4	30.3	31.5	31.5
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	30.2	30.2	30.0	30.0
Employee	7.6	9.0	8.0	8.0
Other	18.3	19.7	18.8	18.7
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.1	0.1	0.0	0.0
Interest Coverage	86.7	127.3	150.2	166.4
Inventory days	78	78	78	78
Debtors days	65	65	65	65
Average Cost of Debt	5.3	4.2	4.1	4.1
Payable days	29	29	29	29
Working Capital days	273	265	291	332
FA T/O	2.5	1.7	1.6	1.6
<b>(D) Measures of Investment</b>				
AEPS (Rs)	17.8	16.1	18.4	20.5
CEPS (Rs)	19.4	18.2	20.9	23.2
DPS (Rs)	5.0	5.0	5.0	5.0
Dividend Payout (%)	28.0	31.0	27.1	24.4
BVPS (Rs)	60.0	70.2	83.6	99.1
RoANW (%)	33.5	24.8	24.0	22.4
RoACE (%)	27.4	22.8	22.3	21.1
RoAIC (%)	36.1	29.2	30.1	30.3
<b>(E) Valuation Ratios</b>				
CMP (Rs)	485	485	485	485
P/E	27.2	30.0	26.3	23.7
Mcap (Rs Mn)	1,23,337	1,23,337	1,23,337	1,23,337
MCap/ Sales	9.3	9.1	8.3	7.5
EV	1,19,007	1,19,207	1,17,648	1,15,101
EV/Sales	9.0	8.8	7.9	7.0
EV/EBITDA	20.5	21.4	18.3	16.1
P/BV	8.1	6.9	5.8	4.9
Dividend Yield (%)	1.0	1.0	1.0	1.0
<b>(F) Growth Rate (%)</b>				
Revenue	30.8	2.9	9.6	10.9
EBITDA	31.5	(3.6)	15.3	11.0
EBIT	32.2	(6.3)	14.9	10.9
PBT	51.3	(12.5)	14.2	10.9
APAT	25.2	(9.4)	14.2	10.9
EPS	25.2	(9.4)	14.2	10.9

E – Estimates

## Cash Flow

Particulars	FY22A	FY23E	FY24E	FY25E
<b>Profit before tax</b>	<b>6,074</b>	<b>5,343</b>	<b>6,070</b>	<b>6,676</b>
Depreciation & w.o.	391	521	625	703
Net Interest Exp	62	40	39	39
Direct taxes paid	(1,904)	(1,370)	(1,565)	(1,735)
Change in Working Capital	(1,936)	(174)	(455)	(554)
Non Cash	0	0	0	0
<b>(A) CF from Operating Activities</b>	<b>2,688</b>	<b>4,360</b>	<b>4,714</b>	<b>5,128</b>
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(661)	(3,098)	(1,998)	(1,498)
<b>Free Cash Flow</b>	<b>2,027</b>	<b>1,262</b>	<b>2,716</b>	<b>3,630</b>
(Inc.)/ Dec. in Investments	(373)	965	(264)	(280)
Other	(93)	100	150	220
<b>(B) CF from Investing Activities</b>	<b>(1,126)</b>	<b>(2,033)</b>	<b>(2,112)</b>	<b>(1,558)</b>
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	(457)	(9)	(3)	0
Interest exp net	(62)	(40)	(39)	(39)
Dividend Paid (Incl. Tax)	(1,273)	(1,273)	(1,273)	(1,273)
Other	607	(252)	0	0
<b>(C) CF from Financing</b>	<b>(1,185)</b>	<b>(1,573)</b>	<b>(1,314)</b>	<b>(1,311)</b>
Net Change in Cash	377	753	1,287	2,259
<b>Opening Cash balances</b>	<b>97</b>	<b>473</b>	<b>1,226</b>	<b>2,513</b>
<b>Closing Cash balances</b>	<b>473</b>	<b>1,226</b>	<b>2,513</b>	<b>4,772</b>

E – Estimates

## Notes

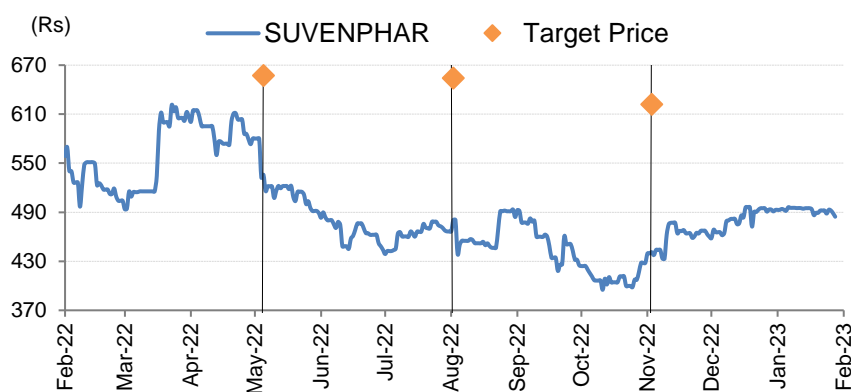


## DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

## Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-22	BUY	657	536
Aug-22	BUY	654	481
Nov-22	BUY	622	441

\*Price as on recommendation date

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