

Demerger to improve margins 7th February 2019

CMP:	Rs. 220
Target	Rs 280
Recommendation	BUY

Stock Info

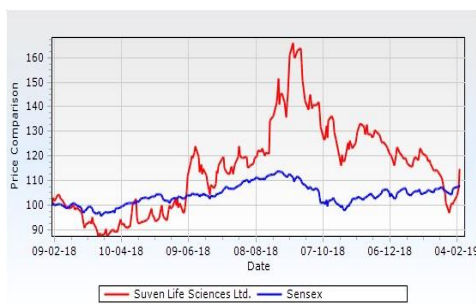
BSE Group	A
BSE Code	530239
NSE Symbol	SUVEN
Bloomberg	SVLS.IN
Reuters	SUVP.BO
BSE Sensex	37026
NSE Nifty	11070

Market Info

Market Capital	Rs. 2,793 cr
Equity Capital	Rs. 12.72 cr
6M Avg. Trading Vol.	836,921
52 Wk High/ Low	337/163
Face Value	Rs.1

Shareholding Pattern (%)	(Dec 2018)
Promoters	60.00
Domestic Institutions	2.41
Foreign Institutions	6.07
Public & Others	31.52

Price Vs Sensex Chart



Quarterly Highlights:

- Revenue stood at Rs 129 Cr vs 163 Cr, de growth of 21% YoY.
- EBITDA stood at 36 Cr vs 51 Cr, de growth of 31% YoY.
- Margins stood at 27.6% vs 27.3% QoQ.
- PAT stood at 25 Cr vs 35 Cr, de growth of 27% YoY.

Conference Call Highlight:

- Suven Life Science (SLS) has acquired all the shares of Suven Pharmaceuticals (SPL), a public limited company, from its existing shareholders. Pursuant to which, Suven Pharmaceuticals has become a wholly owned subsidiary of the company. Suven Pharmaceuticals will list differently on the exchanges after NCLT approval.
- After the demerger every shareholder of SLS will get 1 share of SPL.
- Company is demerging its CRAMS business (SPL) and Drug discovery services business (SLS).
- R&D cost will split in 70:30 ratio 70% for drug discovery and 30% for CRAMS business. This in turn will improve the margins of CRAMS business.
- Revenue was down as commercial supply did not materialize and have postponed to Q1FY20.
- Commercial supply revenue is expected to be Rs 70 -75 crores for FY19 from the previous estimates of Rs 80-90 crores.
- Next year to be better as the supply of raw materials is expected to be stable.
- FY 19 topline is expected to be down 5% and bottom line to be down 10%.
- In FY20 margins are expected to rebound on back of commercial supply as it is a high margin business.
- Margin is expected to be in the range of 32-35%.
- Management expects topline to grow by 15% and PAT by 20% in FY20.
- Company has cash of Rs 300 crores.
- SUVN 502 phase 2 results is expected in July 2019.

Valuations:

Management is hopeful of receiving a positive response for SUVN 502 which will be key trigger for the company. Demerger of the CRAMS and Drug discovery business will be positive for the Company, as it will reduce the R&D expense and in turn will improve margins. Management expects topline to decline by 5% and bottom line by 10% in FY19. However, in FY20 market is expected to rebound and commercial supply will start contributing to topline. China concerns are expected to settle. At the CMP of Rs 220, the stock is trading at 20x its FY19E EPS of Rs 11 and 16x its FY20E EPS of Rs 14. We recommend 'Buy' rating with target price of Rs 280 per share based on a PE of 20x to our FY20E EPS of Rs 14.

Financial Snapshot:

Particulars (Rs. In Crore)	FY18	FY19E	FY20E
Sales	625	590	699
EBITDA	233	221	266
EBITDA Margins	37%	37%	38%
PAT	158	142	172
EPS	12	11	14
PE	17.7	19.7	16.3
ROE	18%	15%	17%

Quarterly Update:

Particulars in Crore	Q3FY19	Q2FY19	Q3FY18	QoQ	YoY
Sales	129	90	163	44%	-21%
Other operating income			1		
Total Revenue	129	90	164	44%	-21%
Other Income	5.8	6.6	3.3	-13%	75%
Total Income	135	96	167	40%	-19%
Expenses					
Cost Of Material	62	41	51	52%	22%
Employee Benefit	15	14	15	7%	1%
R&D expenses	14	12	14	13%	1%
Total	93	65	112	43%	-17%
EBITDA	36	24	51	46%	-31%
EBITDA Margins	28%	27%	31%		
Depreciation	6	6	5	1%	4%
EBIT	30	19	46	59%	-35%
EBIT Margins	23%	21%	28%		
Finance	0.5	0.6	1.2	-10%	-54%
PBT	35	25	48	42%	-27%
Total Tax	10	7	14	46%	-26%
Effective Tax Rate	28%	28%	28%		
PAT	25	18	35	40%	-27%
EPS	2.0	1.4	2.7	40%	-27%

Income Statement:

Income Statement Rs in Crore	FY18	FY19E	FY20E
Revenue	625	590	699
Cost of materials	175	233	245
Gross Margins	72%	60%	65%
Operation and other expenses	217	136	189
Total Operating Expenses	392	369	433
EBIDTA	233	221	266
EBIDTA Margin	37%	37%	38%
Depreciation	21	27	29
EBIT	212	194	237
Interest	5	5	5
Other Income	23	24	24
PBT	230	213	257
Tax	72	70	85
PAT	158	142	172
Growth (%)	28%	-10%	21%
EPS	12	11	14

Balance Sheet:

Balance Sheet Rs Crore	FY18	FY19E	FY20E
Shareholder's funds			
Share Capital	13	13	13
Reserves & Surplus	854	959	1093
Net Worth	867	971	1105
Total Non Current Liabilities	29	29	29
Total Current Liabilities	113	96	104
Total Liabilities	1009	1097	1239
Net Block	305	320	316
Capital Work-in-Progress	25	26	25
Total Non Current Assets	454	484	479
Cash and bank balance	13	5	9
Total Current Assets	555	614	759
Total Assets	1009	1097	1239

Cash Flow:

Cash Flow Rs Crore	FY18	FY19E	FY20E
Profit Before taxes	230	213	257
Add:- Depreciation	25	27	29
Change in Working Capital	-92	26	21
Cash generated from operations	148	270	311
Taxes paid	44	70	85
Net cash flow from operating activities	105	200	226
Purchase of fixed assets	-40	-200	-200
Others	2	15	0
Net cash flow from investing activities	-38	-185	-200
Dividend paid, including dividend tax	-23	-23	-23
Other	-35	0	0
Net cash used in financing activities	-58	-23	-23
Net Cash Flow	9	-8	3
Opening Cash balance	4	13	5
Closing Cash balance	13	5	9

Key Ratios:

Key Ratios	FY18	FY19E	FY20E
Particulars			
EPS	12	11	14
Book Value Per Share	68	76	87
P/E	17.7	19.7	16.3
EBIDTA Margin	37%	37%	38%
PBT Margin	37%	36%	37%
PAT Margin	25%	24%	25%
Debt/Equity	0.03	0.03	0.03
Current Ratio	4.92	6.36	7.31
ROE	18%	15%	17%
DPS	1.50	1.50	1.50

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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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