

Strong Q1 performance; cautious outlook...

Q1FY21 revenues grew 20.7% YoY to ₹ 238 crore driven by 39% YoY growth in the pharma segment to ₹ 127.6 crore. Specialty chemical sales came in at ₹ 97 crore vs. ₹ 99 crore in Q1FY20. EBITDA for the quarter was at ₹ 112 crore, up 9.4% YoY. EBITDA margins contracted 486 bps YoY to 47.0% due to lower gross margin performance, partially offset by lower personnel and other expenditure. PAT remained flat YoY at ₹ 91.5 crore (vs. ₹ 91.9 crore in Q1FY20). Delta vis-a-vis EBITDA was due to lower profit share from associates and a higher tax rate.

Key conference call takeaways

- The company has seen a decline in demand for new projects, which will not impact FY21 but may impact FY22. The management expects likely demand pick up post Q2FY21
- Suven has guided for growth of 10-15% in topline and ~20% in bottomline. EBITDA margins may be maintained at 40%+ in FY21
- It currently has 11 ANDAs filed in US (two from Rising Pharma) and has five molecules under development to be filed within 12-18 months
- Out of the ₹ 320 crore planned capex, ₹ 220 crore has been completed and the rest is expected to be completed by FY21
- Vizag facility to be commercialised by end of FY21
- As of Q1FY21 ₹ 115 crore is payable to Suven Life in two to three years
- Two ANDAs launched in FY21, one more to be commercialised in FY21. Barring Covid-related delays, three to four ANDAs to be commercialised in FY22
- Profit contribution from Rising Pharma to be ₹ 50 crore for FY21
- Suven caters to 60-70 NCE projects/annum across 40 or so customers
- Raw material dependency on China is less than 8%

Valuation & Outlook

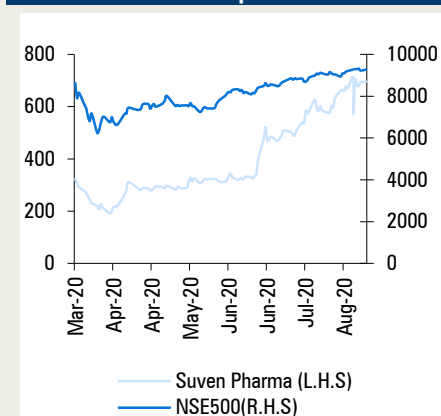
Post de-merger from Suven Life Sciences, pharma business will be largely driven by two cash cow CRAMS segments i.e. pharma, speciality chemicals. With a strong margin profile (+40%) without the R&D burden of innovative pipeline, the free cash flow is likely to remain strong. Despite pandemic and high base, the company has guided 10-15% growth based on strong order book position (albeit some expected delays). Despite significant run up, there is still scope for upside as the company is still trading at significant discount to some leading players in the space dealing with innovators. We emphasise the strong execution capability and focused approach without the burden of success/failure of the innovative pipeline. We maintain **BUY** rating with a target price of ₹ 770 based on 22x on FY22 EPS of ₹ 35.



Particulars

Particular	Amount
Market Capitalisation	₹8303 crore
Debt (FY 20)	₹185 crore
Cash (FY 20)	₹14 crore
EV	₹8474 crore
52 week H/L (₹)	750/174
Equity capital	₹13 crore
Face value	₹1

Price Performance Graph



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Key Financial Summary

₹Crore	FY20	FY21E	FY22E	CAGR FY20-22E (%)
Revenues	833.8	955.6	1068.8	13.2
EBITDA	384.8	431.4	489.0	12.7
EBITDA margins (%)	46.1	45.1	45.8	
Net Profit	317.0	374.3	445.3	18.5
EPS (₹)	24.9	29.4	35.0	
PE (x)	26.2	22.2	18.6	
EV to EBITDA (x)	21.9	19.1	16.0	
RoE (%)	37.5	31.3	27.5	
RoCE (%)	35.6	32.7	30.2	

Source: ICICI Direct Research; Company

Financial Summary

Exhibit 1: Profit and loss statement		₹ crore		
(Year-end March)	FY20	FY21E	FY22E	
Revenues	833.8	955.6	1,068.8	
Growth (%)	NA	14.6	11.8	
Raw Material Expenses	229.2	282.4	315.3	
Employee Expenses	65.1	71.2	77.5	
Other Manufacturing Expenses	154.7	170.5	187.0	
Total Operating Expenditure	449.0	524.2	579.8	
EBITDA	384.8	431.4	489.0	
Growth (%)	124.3	12.1	13.3	
Interest	23.1	11.9	8.4	
Depreciation	23.5	35.9	36.7	
Other Income	18.1	56.0	82.3	
PBT before Exceptional Items	356.3	439.6	526.2	
Less: Forex & Exceptional Items	0.0	0.0	0.0	
PBT	404.5	489.9	586.0	
Total Tax	87.5	115.6	140.6	
PAT before MI	317.0	374.3	445.3	
Minority Interest	0.0	0.0	0.0	
PAT	317.0	374.3	445.3	
Adjusted PAT	317.0	374.3	445.3	
Growth (%)	190.1	18.1	19.0	
EPS	24.9	29.4	35.0	
EPS (Adjusted)	24.9	29.4	35.0	

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement		₹ crore		
(Year-end March)	FY20	FY21E	FY22E	
Profit/(Loss) after taxation	318.1	374.3	445.3	
Add: Depreciation & Amortization	23.7	35.9	36.7	
Net Increase in Current Assets	18.0	-48.2	-45.7	
Net Increase in Current Liabilities	27.2	13.9	13.5	
Others	5.9	0	0	
CF from operating activities	415.9	387.8	452.0	
(Inc)/dec in Fixed Assets	-99.3	-139.0	-35.0	
(Inc)/dec in Investments	-337.2	0.0	0.0	
Others	15.4	2.1	2.3	
CF from investing activities	-421.1	-136.9	-32.7	
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	
Inc / (Dec) in sec. Loan	102.5	-40.0	-40.0	
Dividend & Dividend Tax	-76.7	-23.0	-23.0	
Others	-19.41	-11.92	-2.11	
CF from financing activities	6.4	-74.9	-65.1	
Net Cash flow	1.2	176.0	354.2	
Opening Cash	12.9	14.1	190.1	
Closing Cash	14.1	190.1	544.3	
Free Cash Flow	316.7	248.8	417.0	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet		₹ crore		
(Year-end March)	FY20	FY21E	FY22E	
Equity Capital	12.7	12.7	12.7	
Reserve and Surplus	832.0	1,183.3	1,605.7	
Total Shareholders fund	844.8	1,196.0	1,618.4	
Total Debt	185.3	145.3	105.3	
Deferred Tax Liability	27.6	30.4	33.4	
Minority Interest	0.0	0.0	0.0	
Other Non Current Liabilities	8.8	9.7	10.7	
Source of Funds	1,066.5	1,381.4	1,767.8	
Gross Block - Fixed Assets	473.9	698.9	733.9	
Accumulated Depreciation	117.1	153.0	189.7	
Net Block	356.7	545.9	544.2	
Capital WIP	101.7	15.7	15.7	
Net Fixed Assets	458.4	561.6	559.9	
Investments	338.1	338.1	338.1	
Inventory	174.9	200.4	224.2	
Cash	14.1	190.1	544.3	
Debtors	117.2	134.3	150.2	
Loans & Advances & Other CA	0.0	0.0	0.0	
Total Current Assets	361.0	585.2	985.1	
Creditors	71.1	81.4	91.1	
Provisions & Other CL	35.3	38.8	42.7	
Total Current Liabilities	106.3	120.2	133.8	
Net Current Assets	254.6	464.9	851.3	
LT L& A, Other Assets	15.3	16.8	18.5	
Deferred Tax Assets	0.0	0.0	0.0	
Application of Funds	1,066.5	1,381.4	1,767.8	

Source: Company, ICICI Direct Research

Exhibit 4: Ratio Analysis		₹ crore		
(Year-end March)	FY20	FY21E	FY22E	
Per share data (₹)				
EPS	24.9	29.4	35.0	
Cash EPS	23.1	27.6	33.2	
BV	66.4	94.0	127.1	
DPS	1.8	1.8	1.8	
Cash Per Share	9.2	12.0	14.9	
Operating Ratios (%)				
Gross Profit margins	72.5	70.5	70.5	
EBITDA margins	46.1	45.1	45.8	
Net Profit margins	38.0	39.2	41.7	
Inventory days	76.6	76.6	76.6	
Debtor days	51.3	51.3	51.3	
Creditor days	31.1	31.1	31.1	
Return Ratios (%)				
RoE	37.5	31.3	27.5	
RoCE	35.6	32.7	30.2	
RoIC	79.5	64.9	78.6	
Valuation Ratios (x)				
P/E	26.2	22.2	18.6	
EV / EBITDA	21.9	19.1	16.0	
EV / Revenues	10.1	8.6	7.3	
Market Cap / Revenues	10.0	8.7	7.8	
Price to Book Value	9.8	6.9	5.1	
Solvency Ratios				
Debt / Equity	0.2	0.1	0.1	
Debt/EBITDA	0.5	0.3	0.2	
Current Ratio	3.3	3.3	3.3	

Source: Company, ICICI Direct Research

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Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



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