



# 5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

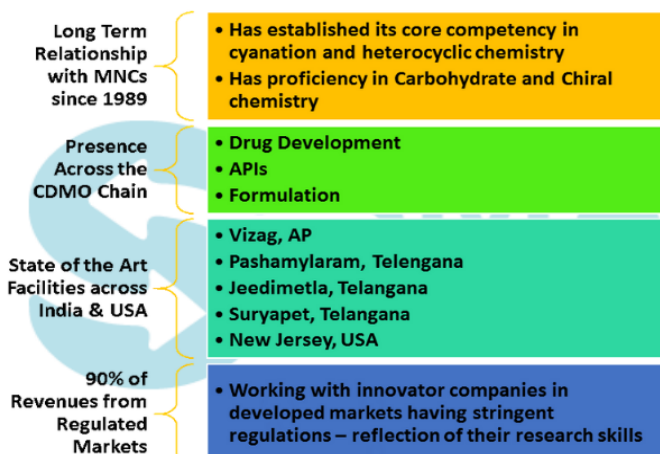
## SUVEN PHARMA

### WHAT WE LIKE

#### EXPERIENCED MANAGEMENT

Mr. Venkateshwarlu Jasti (CMD) holds a dual postgraduate degree in pharmacy and specialized in industrial pharmacy. He has an experience of over 3 decades in contract research industry that helped Suven to associate with 70 global companies.

#### KEY GROWTH DRIVERS



#### VALUE UNLOCKING FROM THE DEMERGER & STRONG FINANCIALS TO ABSORB CAPEX

Suven Pharma was demerged from parent Suven Life Sciences and this is expected to help unlock shareholder value & allow for focused operating strategies for the different operating segments. This action should bring out focused growth, operational efficiencies, business synergies and increased operational and customer focus.

CDMO business has favorable economics thereby ROE (FY20) is @ >40%. In-principal approval of INR 600 crores of CAPEX over a period of 24-36 months. Going forward, the strategy is to evenly balanced between the three verticals – CDMO-Pharma, CDMO Non-Pharma & formulations – making Suven a full-fledged pharma solutions provider and also launch niche ANDAs that are not competing with any of its existing customers.

#### ACQUIRING STAKE IN RISING PHARMA

Suven invested \$35 million in Rising Pharma Holdings for a 25% stake. This investment led to unrealized share of profit of INR 48.21 Cr in FY20.

- Aceto valued Rising at \$450 Mn in 2016
  - Suven invested at \$140 Mn valuation in 2019
- It can leverage Rising's extensive product portfolio and vertically integrating with Suven's world class API and finished dose manufacturing capabilities.

### WHAT WE DON'T LIKE

#### WORKING CAPITAL INTENSIVE OPERATION

While margins & ROE are very attractive for Suven, working capital is very stretched. Cash conversion cycle for Suven is around 265 days. Other competitors in the same space have cash conversion cycle between 150-250 days. Only exception being Syngene, of less than 50 days.

#### CUSTOMER CONCENTRATION RISKS

Top 10 customers contribute to substantial share of revenues exposing the company to customer concentration risk. However, we at SSS, believe that all CDMOs initially have that risk and the concentration should go down during the lifecycle of a CDMO by adding differentiated projects and new customers.

#### LUMPINESS OF REVENUES IN CRAMS

- Very high margin but lumpy business.
- Customer in the first batch takes a small sample and then repeat order takes time (up to 12-18 months) only if the quality is approved.
- Capex heavy at first but high ROE later
- Company has 4 molecules for which intermediates are being supplied
- 1 molecule related to oncology is in Phase 3
- Mainly blockbuster drugs, where the cost of the API is 1-2% of the total.
- Suven is trying to become a complete solution provider in this space.

#### REGULATORY RISKS

In the recent times, we do not get to hear about any major USFDA observations for any Indian Pharma companies. However, that does not mean that the risk is no longer here. While Suven appears to be a very compliant organization from regulation point of view, regulation risk (read USFDA) is certainly there.

#### LONG GESTATION & UNPREDICTABILITY OF PRODUCTS

Drug discovery in general has a high level of unpredictability and long gestation in-built in its business. Post the onset of COVID-19, pharma sector is attracting the investors' attention. Hence current valuation (north of 35 times earnings) may not compensate for the various risks discussed above.

