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

Long Term Relationship with MNCs since 1989	• Has established its core competency in cyanation and heterocyclic chemistry • Has proficiency in Carbohydrate and Chiral chemistry
Presence Across the CDMO Chain	• Drug Development • APIs • Formulation
State of the Art Facilities across India & USA	• Vizag, AP • Pashamylaram, Telengana • Jeedimetla, Telangana • Suryapet, Telangana • New Jersey, USA
90% of Revenues from Regulated Markets	• Working with innovator companies in developed markets having stringent regulations – reflection of their research skills

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.**