Last year I wrote on [Suven Life Sciences](), also I did some secondary level maths to get a sense of returns an investor could get buying the business at then market cap (~2000 INR Crores or 400 Million USD) and exiting in 2024

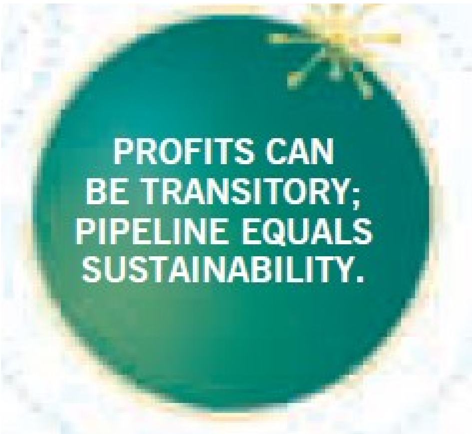
See Snap shot below

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024			
Sales - CRAMS + Others	130	151	205	258	511	450	540	648	778	933	1073	1234	1357	1493	1643			
Growth						Guidance	20.00%	20.00%	20.00%	20.00%	15.00%	15.00%	10.00%	10.00%	10.00%			
Taro Royalty						11	11	11	11	11	11	11	11	11	44			
New Chemichal Entity R&D - No revenue						0	0	0	0	0	0	0	0	0		Highly unlikely		
Total Revenue (No R&D revenue)	130	151	205	258	511	461	551	659	789	944	1084	1245	1368	1504	1687			
Net profit	7	10	14	31	144	97	83	99	118	142	163	187	205	226	304		4554	Future M-Cap (INR Crores)
NPM% Sales	5.38%	6.88%	7.00%	11.95%	28.21%	21.46%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	18.00%		2000	C-Mcap (INR Crores
R&D	34.15	31.14	33.04	34.69	47.94	46.1											9.57%	CAGR
R&D % Sales	26.27%	20.62%	16.12%	13.45%	9.38%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%			

The base case CAGR didn't excite but reading management commentary compelled me to take a tracking position in [model portfolio]()

Over to this year

One thing in AR gave me a Jeff Bezos moment



For the first time management was sounding optimistic (this is coming from a management which is very conservative on record)

Emphasis mine

<u>Management views on past</u>

Despite having grown the business every single year across the last five years, our business sustainability has been consistently questioned. We are perceived as a high risk service-based business marked by volatile quarter on quarter earnings because successful project completion may not necessarily translate into repeat orders if the project does not carry through at the innovator's end

<u>Management views on Future</u>

The big message that I wish to send out is that this reality is likely to change. ***The volatility in our business model may moderate extensively*** *following the commercialisation of three products at the innovator's level followed by consistent multi-year offtake coupled with growth from our annuity driven specialty chemicals business.*

<u>Business Segments</u>

NCE Segment

Emphasis mine on optimism in management commentary

Suven's prospects appear bright considering the relative absence of effective therapies for these diseases in the US

SUVN 502. For this molecule, we completed Phase-Ib trials and commenced preparations for the Phase-IIa (POC) trial. We hope to initiate patient trials during the second half of the current year and are hopeful of monetising this molecule post successful completion of the study in fiscal 2017

The pipeline looks strong with years' worth of work and money (R&D) getting set for commercialisation

The NCE pipeline

	Design	Discovery	Pre Clinical	IND	Phase 1	Phase 2		
Neurodegenerative Diseases/Cognition/Mild Cognitive Impairment (MCI)/Alzheimer's/Schizophrenia/ Pain/ Major Depressive Disorder (MDD)								
SUVN-501 (5-HT6 Antagonist)								
SUVN-502 (5-HT6 Antagonist)				2013	2013	2015		
SUVN-507 (5-HT6 Antagonist)								
SUVN-G3031 (Histamine-3 Antagonist)				2014	2014	2016		
SUVN-976 (5-HT6 Antagonist)								
SUVN-D4010 (5-HT4 Partial Antagonist)				2015	2015	2017		
nAChr Alpha – 4 Beta – 2								
SUVN-512 (5-HT6 Antagonist)								
nAChr Alpha – 4 Beta – 2 Antagonist (Pain)								
SUVN-911(nAChr Alpha – 4Beta – 2) (MDD)				2016	2016	2018		
CB2 Agonist (Pain)								

CRAMS

Three products from the pipeline moved to launch stage, commercial volumes for these products are expected to be generated FY17 onwards

To make a sense of this each of could bring 50-100 Crore annuity business if the Innovators working with Suven are able to commercialise them post phase 3

Our base CRAMS business is estimated to grow 10% y-o-y over five years.

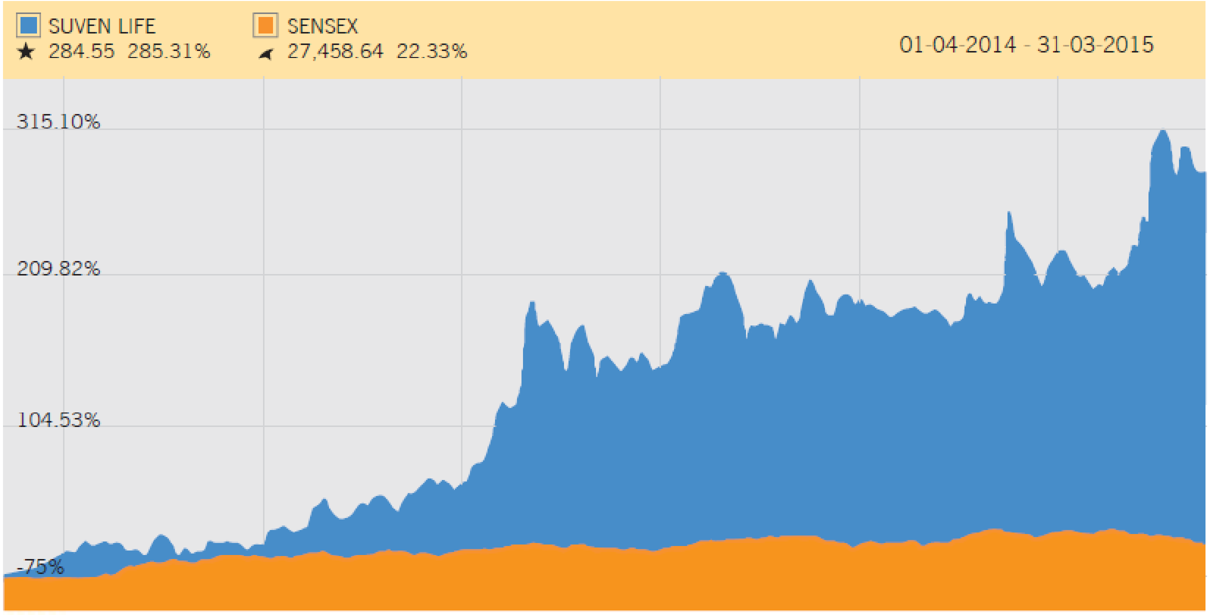
	2010-11	2011-12	2012-13	2013-14	2014-15
Products in Phase-I	47	51	46	52	57
Products in Phase-II	30	32	41	46	52
Products in Phase-III	3	1	3	1	1

We ended FY15 on an optimistic note. In the base CRAMS business pipeline, we have 52 projects catering to Phase-II products, the highest in our existence. A single project moving to Phase-III can result in a significant volume increment and enhanced profitability.

Royalty (Marketing Licence)

*During the year under review, we filed three ANDAs in collaboration with customers; a maturity of these ANDAs **could lead to additional revenues.***

Now it was proved that I was a sitting duck, as market cap zoomed from INR 2000 (USD 400 million) crore to INR 3200 Crore (USD 640 Million)



Sticking to my old assumptions now the base CAGR is now even lower

See snapshot at 15X exit

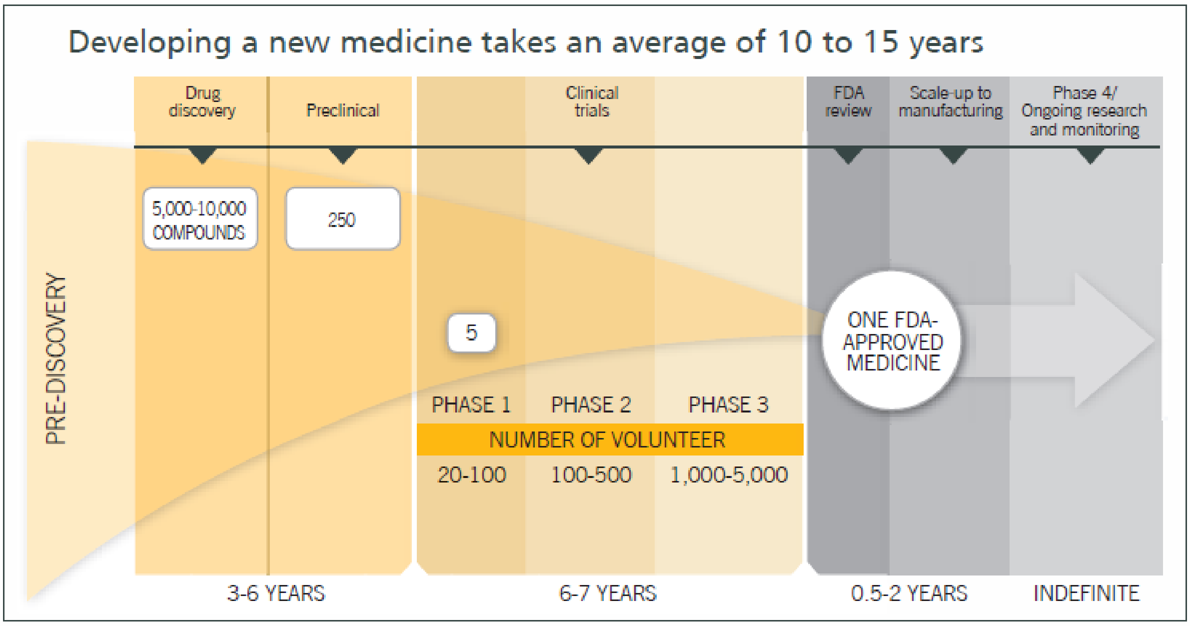
	2010	2011	2012	2013	2014	2015-G	2015-A	2016	2017	2018	2019	2020	2021	2022	2023	2024		
Sales - CRAMS + Others	130	151	205	258	511	450	519	623	747	897	1076	1238	1423	1566	1722	1894		
Growth						Guidance		20.00%	20.00%	20.00%	20.00%	15.00%	15.00%	10.00%	10.00%	10.00%		
Taro Royalty						11	10	11	22	22	33	33	33	33	44	44		
New Chemichal Entity R&D - No revenue						0	0	0	0	0	0	0	0	0	0		Highly unlikely	
Total Revenue (No R&D revenue)	130	151	205	258	511	461	529	634	769	919	1109	1271	1456	1599	1766	1938		
Net profit	7	10	14	31	144	97	109	95	115	138	166	191	218	240	318	349	5234	Future M-Cap (INR Crores)
NPM% Sales	5.38%	6.88%	7.00%	11.95%	28.21%	21.46%	20.60%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	18.00%	18.00%	3192	C-Mcap (INR Crores
R&D	34.15	31.14	33.04	34.69	47.94	46.1	56										5.65%	CAGR
R&D % Sales	26.27%	20.62%	16.12%	13.45%	9.38%	10.00%	10.79%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%		

But should I not change my mind knowing management has always under promised and over delivered and have given enough optimistic indications this year to shareholders

<u>If I don't I would be plagued by consistency bias</u>

Also I am now comfortable that SUV 502 is not the only joker in deck, the company is building a sustainable pipeline and one of them would succeed in due course

5 out 1 makes it, if not SUV 502, one out of others would make it



The other factor which made me change my mind

Prof Bakshi teaches us look for business which have staying power

Sanjay Bakshi
@Sanjay__Bakshi

Following

@Sanjay__Bakshi Staying power from the perspective of business model

From the vantage point of a business model, staying power comes from:

1. A product or service that will not be obsoleted for a long time - usually these are things that serve basic human needs and aspirations
2. Multiple sources of revenue streams
3. Low customer concentration risk
4. Low supplier concentration risk especially when dealing with critical raw materials
5. A business which does not derive its key advantages from political clout
6. Slack in the form of un-utilised capacity especially in case of industries when most money is made during periods of shortages.
7. High customer switching costs (financial or psychological e.g. in brands)
8. Solid entry barriers which prevent a business from a competitive attack that can destroy it

The above is not an exhaustive list

and why do I say so ?

Management indicated last year that they may not get repeat order which would reduce their topline and bottomline inFY15

See highlighted text, the business was able to not only offset 74% de-growth but also grow its core business at fantastic rate

Revenue from operation (net) grew marginally by 3% from INR 513 crore in 2013-14 to INR 529 crore in 2014-15. This was primarily due to healthy growth in the core CRAMS business, which grew by 44% over the previous year, compensating the 74% de growth in one-off pre-launch revenue.

Final thing that changed my mind

A single project moving to Phase-III can result in a significant volume increment and enhanced profitability

Our base CRAMS business is estimated to grow 10% y-o-y over five years.

	2010-11	2011-12	2012-13	2013-14	2014-15
Products in Phase-I	47	51	46	52	57
Products in Phase-II	30	32	41	46	52
Products in Phase-III	3	1	3	1	1

Suven has got 52 projects in Phase II

So I changed my base assumption but I still be on conservative side

- Improved growth of CRAMS business ~20% constant (50% lower than current year)
- NCE segment becomes revenue generating (USD 80 million in year of exit)
- Exit multiple of 18 (reasonable for a 20% growing business and earning 18% margin)
- Now my CAGR return is ~15%

	2010	2011	2012	2013	2014	2015-G	2015-A	2016	2017	2018	2019	2020	2021	2022	2023	2024	
Sales - CRAMS + Others	130	151	205	258	511	450	519	623	747	897	1076	1291	1550	1860	2232	2678	
Growth						Guidance	44%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	
Taro Royalty						11	10	11	22	22	33	33	33	33	44	44	
New Chemichal Entity R&D - No revenue						0	0	0	100	100	150	150	200	250	300	400	Likely
Total Revenue (No R&D revenue)	130	151	205	258	511	461	529	634	869	1019	1259	1474	1783	2143	2576	3122	
Net profit	7	10	14	31	144	97	109	114	156	183	227	265	321	386	464	562	
NPM% Sales	5.38%	6.88%	7.00%	11.95%	28.21%	21.46%	20.60%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	18.00%	
R&D	34.15	31.14	33.04	34.69	47.94	46.1	56										
R&D % Sales	26.27%	20.62%	16.12%	13.45%	9.38%	10.00%	10.79%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	

Future M-Cap
10115 (INR Crores)
3192 C-Mcap (INR Crores
15.51% CAGR

15% works for me on conservative side, If Mr Jasti delivers more which he could that will be Bonus

Side Note – All of promoter holding moved into trust – Would lead to less squabble between sisters when Mr Jasti is gone (I pray for his long life)

(ii) Shareholding of Promoters

Sl. No.	Shareholder's Name	Shareholding at the beginning of the year			Shareholding at the end of the year			% change in Shareholding during the year
		No. of Shares	% of total Shares of the Company	% of Shares Pledged / encumbered to total shares	No. of Shares	% of total Shares of the Company	% of Shares Pledged / encumbered to total shares	
1.	Jasti Property and Equity Holdings Private Limited*	0	0.00	0.00	75652576 #	59.44	0.00	59.44
2.	Venkateswarlu Jasti	23000000	19.69	0.00	1000	0.00	0.00	(18.07)
3.	Sudha Rani Jasti	21000000	17.98	0.00	1000	0.00	0.00	(16.50)
4.	Sirisha Jasti	10550000	9.03	0.00	1000	0.00	0.00	(8.29)
5.	Madhavi Jasti	10550000	9.03	0.00	1000	0.00	0.00	(8.29)
6.	Kalyani Jasti	10550000	9.03	0.00	1000	0.00	0.00	(8.29)
7.	Subba Rao Jasti	7576	0.00	0.00	0	0.00	0.00	(0.00)
	Total	75657576	64.76	0.00	75657576	59.44	0.00	0.00

Disclosure - Suven in portfolio last buy made a week ago

This is not a recommendation and I am not a registered SEBI research analyst, due your due diligence