



Is this a play on the latest rally in Pharma?

Why now?

Is there fuel still left in the engine?

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Disclaimer

- I am invested in Suven Pharma.
- Intent of presentation is to educate about this company and share knowledge and identify gaps in thesis.
 - This is my attempt on learning the pharma industry & trying to fill gaps in my understanding this complex sector.
- This is not a stock recommendation, especially given the *run up* in the company's stock price.
- Can reduce or exit completely at my discretion, kindly perform your own due diligence.

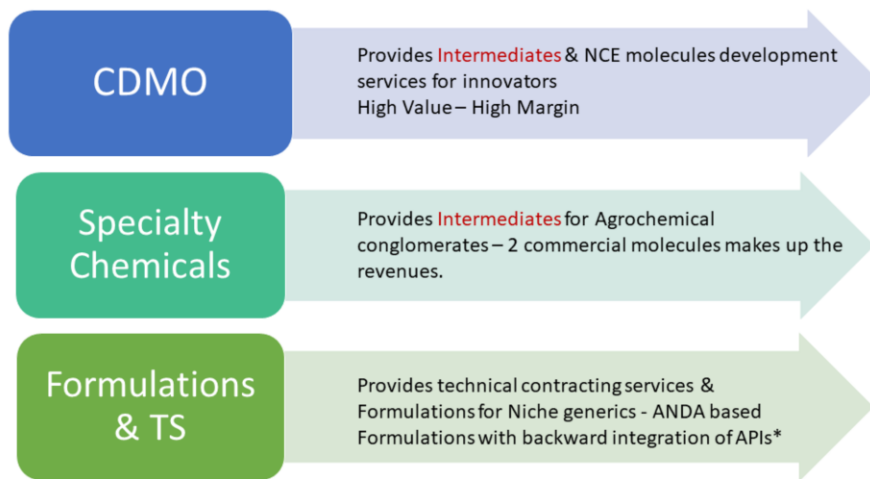
Overview of Suven Pharma

- Integrated CDMO[#] with strong capabilities in
 - Process Research
 - Custom synthesis
 - Formulation Dev Analytical & Services
 - Clinical Supplies Manf. & Packaging
- Preferred Global outsourcing partner with capabilities across the CDMO value chain.
- Known for strong intellectual capabilities in Central Nervous System (CNS)
- Supports the regulated markets(90% revenues), satisfying stringent regulations

CDMO - means Contract Development And Manufacturing Operations

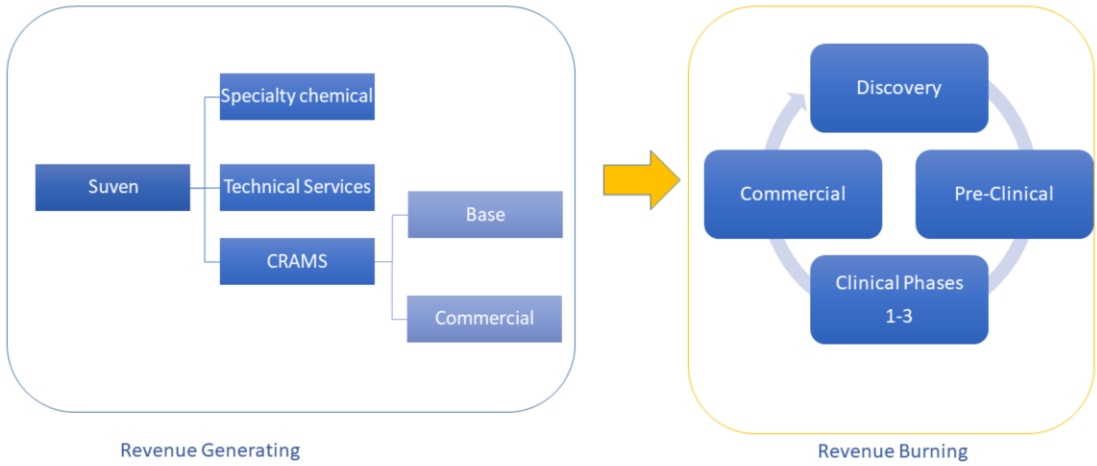
- Among few global players present in high-value CNS segment research
- Built strong intellectual capabilities in CNS segment since 2005 (CNS second-largest and fastest-growing segment)

Suven Pharma Business Verticals

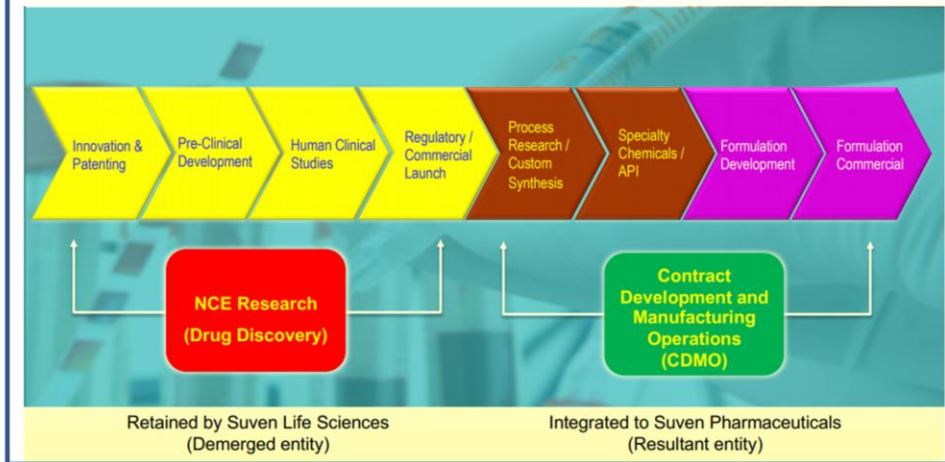


*as of today, formulations is a small component; Future Growth driver. Mgmt. expects formulations to be 1/3rd of the PAT pie in 2-3 years.
NCE stands for New Chemical Entity

History



Business Model – Post Demerger



Contd.

- One of the best margins in the industry (see next page)
 - Supplies only **Intermediates** for Developmental and Commercial molecules.
 - CRAMS and Specialty chemicals were cash generating business with north of 30% margins at EBITDA level and 20%+ margins at PAT level.
 - Cash from this segment was used to fund Research & Clinical trials for molecules like Suvn502,3031,etc.
- Does not have visibility more than 6 months on their pipeline.
 - Typically among the 2-3 suppliers for a commercial and developmental molecules.
 - Have always expensed R&D since 2003.
 - Currently, they roughly do about 60 to 70 active projects per year & have around 40 customers approx..

Margins – Pre R&D EBITDA/ EBITDA

| Seven - # are in millions | | | | | | | | | | | | | | | | | |
|---------------------------|---------|----------|----------|----------|----------|----------|----------|----------|----------|--------|----------|----------|----------|----------|----------|----------|----------|
| Quarterly | FY17 | | | FY18 | | | FY19 | | | FY20 | | | FY21 | | | | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | |
| Revenue | 1377.24 | 1,223.05 | 1,204.55 | 1,850.86 | 1,466.42 | 1,119.91 | 1,669.47 | 2,229.00 | 1,997.90 | 961.08 | 1,347.83 | 2,571.00 | 2,019.93 | 2,799.00 | 1,835.94 | 1,901.05 | 2,439.72 |
| Pre-R&D EBITDA | 625.08 | 581.77 | 581.24 | 725.84 | 668.97 | 617.65 | 685.59 | 1,172.00 | 823.47 | 433.88 | 553.90 | 1,269.00 | 1,053.08 | 1,307.84 | | | |
| Pre-R&D EBITDA Margin | 45% | 48% | 48% | 39% | 46% | 55% | 41% | 53% | 41% | 45% | 41% | 49% | 52% | 47% | | | |
| EBITDA | 478.18 | 435.23 | 417.64 | 533.46 | 508.86 | 508.86 | 546.81 | 1,003.00 | 663.59 | 310.01 | 413.59 | 1,090.00 | 624.50 | 1,161.20 | 849.47 | 826.97 | 1,178.47 |
| EBITDA Margin | 35% | 36% | 35% | 29% | 35% | 45% | 33% | 45% | 33% | 32% | 31% | 42% | 31% | 41% | 46% | 44% | 48% |
| PAT | 324.63 | 264.44 | 241.58 | 403.11 | 295.46 | 317.23 | 345.74 | 623.00 | 387.73 | 179.41 | 251.65 | 680.00 | 261.75 | 722.85 | 519.99 | 532.41 | 812.30 |
| PAT Margin | 24% | 22% | 20% | 22% | 20% | 28% | 21% | 28% | 19% | 19% | 19% | 26% | 13% | 26% | 28% | 28% | 33% |
| Demerged | | | | | | | | | | | | | | | | | |
| Annual | FY17 | FY18 | FY19 | FY20 | | | | | | | | | | | | | |
| Revenue | 5655.7 | 6,484.80 | 6,877.81 | 8519.07 | CAGR | 11% | | | | | | | | | | | |
| Pre-R&D EBITDA | 2513.93 | 3,144.21 | 3,080.25 | | | | | | | | | | | | | | |
| Pre-R&D EBITDA Margin | 44% | 48% | 45% | | | | | | | | | | | | | | |
| EBITDA | 1864.51 | 3,100.99 | 2,477.19 | 4032.63 | CAGR | 21% | | | | | | | | | | | |
| EBITDA Margin | 33% | 48% | 36% | | | | | | | | | | | | | | |
| PAT | 1233.76 | 1,984.54 | 1,498.79 | 2700.8 | CAGR | 22% | | | | | | | | | | | |
| PAT Margin | 22% | 31% | 22% | | | | | | | | | | | | | | |

Pre R&D EBITDA is for monitoring margins before Demerger
 EBITDA is for monitoring margins after demerger

Base CRAMS (NCE based)

- Suven works with global innovator companies, supplying intermediates for their NCEs during the clinical phase of drug development.
- The EBITDA margin profile for base CRAMS is a bit lower than the commercial CRAMS. Up until FY19 (per AR) – they contributed **45%** of the revenue. Starting this year, they have stopped providing break ups.
- Over the years, Suven has reported a consistent rise in the number of active products under CRAMS. Below is a snapshot of the molecules pipeline- according to mgmt. there is approx. 40% churn in these but still remains a healthy one. *They have stopped providing these # from earlier this year.*

| Buckets | FY12 | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | Q1 FY20 | Q2 FY20 | Q3 FY20 |
|------------|------|------|------|------|------|------|------|------|---------|---------|---------|
| Phase I | 51 | 46 | 52 | 57 | 64 | 70 | 72 | 82 | 82 | 78 | Stopped |
| Phase II | 32 | 41 | 46 | 52 | 48 | 38 | 36 | 33 | 32 | 34 | |
| Phase III | 1 | 3 | 1 | 1 | 1 | 2 | 1 | 1 | 1 | 3 | |
| Commercial | ? | ? | 3 | 3 | 3 | 3 | 4 | 4 | 4 | 4 | |
| Active | 84 | 90 | 102 | 113 | 116 | 113 | 113 | 120 | 119 | 119 | |

CRAMS - Contract Research And Manufacturing Services

Commercial CRAMS (NCE based)

- This vertical is a high- value, high-margin vertical which also provides long-term revenue visibility. It involves supplies of intermediates for NCEs that have cleared clinical trials and are ready for launch.
- Currently the companies provides 4 molecules for molecules related to the following#:
 1. Rheumatoid arthritis,
 2. Diabetes,
 3. Depression &
 4. Women's health (recent addition) – *started in 2018*

These 4 molecules – wont have continuous demand round the year. Its campaign based production. They might come now and they might come back for another batch for another 18 months. These depend on the end product sales and velocity.

Specialty Chemicals

- Specialty chemicals (SC) supplied by Suven, are *Intermediate* molecules used (*mostly-90%*) in the agrochemical industry. They are patent protected.
- They currently have two molecules, one among which came of patent last year. One of which was launched by customer towards the close of 2018-19.
- SC molecules, like NCE, also takes 6-7 years before you can see results.
- Additionally two more molecules are in the pipeline for commercialization. At optimum volumes, each will contribute \$7 million (50 crore) to Revenue. These will provide an annuity kind of revenue for us.
- SC margins are lower compared to Base and commercial CRAMS.

Difference between a NCE molecule for humans vs AgroChem - This also takes the same time as the commercial, molecule for the human health in the same range. We have supplied some small quantities for validation and all the stuff, now is the first time commercial they have launched the products. **So, this is an intermediate only. Is not the final product** and the volume is unlike the other molecule, it will not be in 100's of crore it will be mainly \$7-\$8 million per year.

Formulations

- Have started entering formulations – have led 11 ANDAs
 - 3 belongs to Suvon
 - 6 to customers
 - 2 **New Animal drug for customer**
- Not volume play, niche molecules, leverage play on Assets.
- PAT growth more important than revenue growth in Formulations: *We just happened to start supplies for 2 - we expect revenue generation can grow because here **it may not be the top line growth that comes into the picture, it is the bottom line growth** because it is a **profit share** because the sale price versus the product share is completely different, I may be selling at \$1, but my profit share can be \$2. [Q4 FY20]*
- *Why did we they choose ANDA? – Never concentrated on formulations historically; for NCE clinical phases had to support formulations- built infra which will not be 100% utilized day in day out – leveraging our Capacities and Capabilities.*
- *Wont we have competition? – Small volume and value (post patent expiry), Niche molecules, based on our expertise add some value – Big players might not enter if its not a big volume biz.*

#Profit share can be anywhere ranging from 35% to 50:50 depending on the nature of the molecule and difficulty to develop the molecule

Rising Pharma

Per Management, the rationale for purchasing Rising Pharam were multi-fold*:

- As an investment.
- Preferred Partner and First right of refusal –
 - They had a relationship with Rising before purchase with 3 ANDAs already developing for them. Rising is a *development cum distribution* company and it has about more than 100 ANDAs under their belt with various customers.
 - Every year they develop 10-15 additional ANDAs – if it suits our profile –
 - Suven as a preferred partner to develop which we will accrue the revenue in the CRAMS side of the business and then when the development takes place and the approval comes in, we can manufacture and supply, **then that revenue accrues as a CRAMS revenue.**
- Then on the **profit share**, we will get the profit margins that also will be added to the CRAMS revenue.
- Finally when it becomes profitable and gives dividend to our US subsidiary, that will come back to Suven India also. So this is a multi-fold activity start with investment because we know 3-4 years it will bring the value.
- Will be the distribution channel for our generics in USA, instead of us trying to find partners to distribute our generics and losing margins between these different channels.

- Above notes are from Q4 FY19 & Q1FY20
- Invested 35 million USD for a 25% stake in a company that was in bankrupt proceedings. 3 years ago when it was profitable it had \$360 Million in revenue and \$50 in Operating earnings.
- As per Q4FY20, they have started reporting profits, but the #'s were not disclosed as they are privately held & only the minority share portion was reported on Suven Pharma's consolidated statements.

Why now? Key Variable to monitor?

1. Demerger – No Cash consuming vertical like Clinical trials
2. ANDA filings - Formulations vertical are going to be the next growth drivers – consistent # of ANDA filings per year planned.
 1. Each molecules can add \$2-4 million (14-28 crores) to the bottom line.
 2. Profit sharing model in this space \$1 of sales can generate \$2 of profits.
 3. Not volume play, niche molecules, leverage play on Assets.
3. Between now and FY20-FY22
 1. One molecule to go commercial in CRAMS
 2. Two molecules to go commercial in Specialty chemical
4. Rising pharma investment – first preference – selection of molecules.
5. Rising Pharma making profits (*it's a privately held company, dividends and share of revenue via holding company*)
6. Distribution benefits through Rising Channel.
7. Specialty chemicals – molecules in the pipeline going to help trigger revenue jumps– 2 molecules - *one for sure will be in 2021 and the second also can come in 2021 at the far end of it.*
8. To support all the above the company had announced ~320 crores of Capex (50 became 120(Q4FY17) + 180 (Q4FY18) for form. & addn block)

Risks

- About ten customers will give us the 90% of the business, which will keep changing between them.#
- Lumpiness in revenues in CRAMS and Specialty Chem.
- Mr. Venkat is 70 years old – Succession planning will be effective?
 - 2nd daughter US operations for CRAMS
 - Elder daughter – Clinical dev of NCE molecules
- There will be related party transactions due to demerger and investments in Rising Pharma – needs to monitored.

#Concentration keeps changing because today's number one customer maybe tomorrow's #10 customer because of the product mix as the volume of the business that takes off, one product is giving commercial he may not be there but next year no commercial for six months, then he will not be the #1. So, all in all, **about ten customers will give us the 90% of the business**, which will keep changing between them.