Suven Life Sciences Limited

May 02, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	31.22	**CARE A [Single A] (Credit watch with developing implications)**	**Placed on credit watch with developing implications**
Short term Bank Facilities	27.50	**CARE A1 [A One] (Credit watch with developing implications)**	**Placed on credit watch with developing implications**
Total Facilities	**58.72 (Rs. Fifty Eight Crore and Seventy Two lakh only)**		

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings assigned to the bank facilities of Suven Life Sciences Limited (Suven) on 'Credit watch with developing implications' subsequent to the purchase of assets of Rising Pharmaceuticals through its joint venture partner under Shore Suven Pharma Inc. CARE is in the process of evaluating the impact of the above developments on the credit quality of Suven and would take a view on the rating when the exact implications of the above are clear.

The ratings assigned to the bank facilities of Suven Life Sciences Limited (Suven) derives strength from experience of the promoters and management team, established track record in Contract Research and Manufacturing Services (CRAMS) segment with reputed clientele and strong research and development capabilities, and favorable industry outlook. The ratings also factor in increased operating income coupled with improved profitability margins during FY18 (FY refers to the period April 01 to March 31), comfortable capital structure with further improvement as on March 31, 2018, and strong debt coverage indicators. The ratings are, however, tempered by the ongoing capex programme albeit funded by internal accruals and available funds, continued high risk and uncertainty associated with New Chemical Entities (NCE) development activity resulting in high research and development (R&D) cost, product and customer concentration risk, and exposure to forex risk on account of exports.

The ability of the company to further increase its total operating income, improve profitability margins while maintaining its capital structure and monetize its R&D pipeline are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team: Suven is promoted by Mr. V. Jasti (Chairman and CEO) and he is a Post Graduate in Pharmacy, specializing in Industrial Pharmacy. He has been actively involved in the day-to-day affairs of the company and he is assisted by a team of well qualified professionals.

Strong research & development competency: Suven has strong R&D capabilities and expertise. The company has an R&D around 430+ members with 35 PhD's as on March 31, 2018. Contract Research and Manufacturing Services (CRAMS) and Drug Discovery and Development Support Services (DDDSS). The company also has around 13 molecules (own) in its pipeline in which the company undertakes research. The company has around 1,247 product patents for 37 product inventions and 46 process patents for 11 process inventions in various countries for the above molecules as on March 31, 2018.

Increased revenue contribution from the CRAMS segment during FY18 ensuring stable cash flows: The revenue contribution from the CRAMS segment has remained stable at 95% of the total sales in FY18 vis-à-vis FY17. The total revenue generated from the CRAMS segment improved by around 15% from Rs.516.70 crore in FY17 to Rs.596.87 crore in FY18. Receipt of an order for supply of intermediates for a women health product for a New Development Application (NDA) filing coupled with repetitive orders from existing clients resulted in the healthy growth in revenue during FY18.

Healthy growth in operating income and profitability margins during FY18: At consolidated level, the Total Operating Income (TOI) of the company improved by 15.7% during FY18 from Rs.544.70 crore in FY17 to Rs. 630.30 crore on account of increased revenue contribution from the CRAMS segment. The PBILDT margin has improved by 833 bps from 23.91% during FY17 to 32.24% during FY18 majorly on account of supply of high margin commercial quantities of an intermediate as well as change in product mix during the year. The PAT margin has improved by 361 bps from 16.01% in FY17 to 19.62% in FY18 due to low interest and depreciation charges during the year.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

At standalone level, the Total Operating Income (TOI) of the company improved by 15.7% during FY18 from Rs.544.70 crore in FY17 to Rs. 630.30 crore on account of increased revenue contribution from the CRAMS segment as well as earning from supplies of the formulated products. The PBILDT margin has improved by 718 bps from 30.57% during FY17 to 37.75% during FY18 majorly on account of supply of high margin commercial quantities of an intermediate as well as change in product mix during the year. The PAT margin has improved by 247 bps from 22.67% in FY17 to 25.14% in FY18 due to low interest and depreciation charges during the year.
Further, during 9MFY19, the company had registered a TOI of Rs.430.68 crore with a PAT of Rs.82.08 crore.

Comfortable capital structure and strong debt coverage indicators during FY18: At consolidated level, the overall gearing of the company is comfortable at 0.04x as on March 31, 2018 as against 0.11x as on March 31, 2017 owing to repayment of debt coupled with accretion of profits to net worth. The interest coverage ratio has improved and comfortable at 43.92x in FY18 and the total debt to GCA improved from 0.63x in FY17 to 0.16x in FY18 due to low debt levels and improved profitability. At standalone level, the overall gearing level of the company has further improved and is comfortable at 0.03x as on March 31, 2018 as against 0.10x as on March 31, 2017 owing to repayment of debt coupled with accretion of profits to net worth. The interest coverage indicator of the company is comfortable at 51.60x in FY18 and total debt to GCA improved from 0.48x in FY17 to 0.13x in FY18 due to low debt levels and improved profitability.

Established and reputed clients: Suven has established relationship with 70+ global pharmaceutical companies and the clientele include innovator MNCs like Pfizer, DuPont International, Abbott, Eli Lilly, Bayer, Celegene Corporation, Lund Beck, Danisco etc.

Favorable industry outlook: The outlook of the pharma industry is favorable in light of healthy prospects for the domestic as well as the export markets. Exports to regulated markets along with emerging markets would drive the growth for Indian Pharmaceutical Industry (IPI) on the back of patent expiries and increasing government emphasis on generics in these markets.

Key Rating Weaknesses

Proposed debt expansion: Suven is planning to set up an additional block in the existing plant at Pashamylaram and a multipurpose plant production plant at Visakhapatnam plant. For the same, the company is planning to incur capital expenditure of around Rs.192 crore during FY19 and around Rs.25 crore during FY19-FY20 funded through internal accruals/ liquid investments.

High risk and uncertainty associated with NCEs and resultant high R&D expenditure: Apart from CRAMS, the company is also engaged in drug discovery. Suven’s drug discovery pipeline consists of around 13 molecules in various stages of development out of which 5 molecules are in various stages of clinical trials. The R&D expenditure decreased by 11% in FY18 at standalone level (from Rs.64.94 crore in FY17 to Rs.58.47 crore in FY18). On a consolidated basis, the company has incurred Rs.90.21 crore in FY18 vis-à-vis Rs.99.14 crore in FY17. On one hand, though there is high uncertainty and risk involved, on the other if any one of the molecules becomes a success, the benefits are expected to accrue for a long period of time in future.

Product and customer concentration: The top 10 products of Suven contributed around 62.6% of gross sales during FY18 vis-à-vis 64.4% during FY17. Similarly, the company continues to face customer concentration risk wherein the top 10 customers for FY18 contributed around 80% of the gross sales vis-à-vis 82% of gross sales during FY17.

Foreign exchange fluctuation risk: Exports constituted around 92% of the net sales of Suven for FY18 vis-à-vis 91% in FY17. Though the company has a natural hedge, the company continues to remain exposed to risk on account of foreign exchange fluctuations.

Analytical approach: Consolidated
For arriving at the rating of Suven Life Sciences Ltd, CARE has considered the consolidated financials and business profile of Suven Life Sciences Ltd and wholly owned subsidiary Suven Neurosciences Inc.

Applicable Criteria
[Criteria for placing rating on credit watch]
[CARE’s Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology- Pharmaceutical Sector]
[Financial ratios – Non-Financial Sector]

About the Company

Suven Life Sciences Limited (Suven), incorporated in March 1989, by Mr. Venkateshwarlu Jasti, is a pharmaceutical research company which is primarily engaged in the business of New Chemical Entity (NCE) based Contract Research and Manufacturing Services (CRAMS) and Drug Discovery and Development Support Services (DDDSS). Suven expertise in process research, custom synthesis and NCE development support services. Around 95% of the company's revenue is derived from CRAMS while the balance is from DDDSS during FY18. Further, the company is also focused on research and development of (NCEs) pertaining to Central Nervous System (CNS) disorders like Alzheimer's, Schizophrenia, Depression etc.

Suven has established relationship with 70+ global pharmaceutical companies and the clientele include innovator MNCs like Pfizer, DuPont International, Abbott, Eli Lilly, Bayer, Celegene Corporation, Lund Beck, Danisco etc. The company has successfully completed 800+ projects till March 31, 2018 and currently has 109 active projects under CRAMS. Suven has 4 manufacturing facilities (2 USFDA Approved) with 3 in Telangana and 1 in Andhra Pradesh and 3 R&D facilities with 2 facilities in Telangana and 1 in Andhra Pradesh. The company also has a dedicated Formulation Development Centre (Research Centre III) at Medak District, Telangana.

Suven Neurosciences Inc. is a wholly owned subsidiary of Suven, which is a clinical-stage biopharmaceutical company (commenced activities in October 2015), focused on the acquisition, development and commercialization of novel therapeutics for the treatment of neurodegenerative disorders. The near-term focus for Suven Neurosciences Inc., is to develop Suven product candidate, SUVN-502, for the treatment of Alzheimer's disease and other forms of dementia.

During April 2019, Suven has acquired the assets of Rising Pharmaceuticals, USA, in a Joint Venture (JV) with Shore Pharma Investments LLC, USA, under Shore Suven Pharma, Inc.

Brief Financials (Rs. crore) – Standalone	FY17 (A)	FY18 (A)
Total operating income	544.70	630.30
PBILDT	166.51	237.95
PAT	123.47	158.43
Overall gearing (times)	0.10	0.03
Interest coverage (times)	29.39	51.60

A: Audited

Brief Financials (Rs. crore) – Consolidated	FY17 (A)	FY18 (A)
Total operating income	544.70	630.30
PBILDT	130.24	203.23
PAT	87.19	123.69
Overall gearing (times)	0.11	0.04
Interest coverage (times)	22.92	43.92

A: Audited

Status of non-cooperation with previous CRA: CRISIL had suspended its ratings vide press release dated December 19, 2014 on account of non-cooperation by the company.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-		June 2019	0.22	CARE A (under Credit watch with developing implications)
Fund-based - LT-Cash Credit	-	-	-	6.00	CARE A (under Credit watch with developing implications)
Fund-based - LT-EPC/PSC	-	-	-	25.00	CARE A (under Credit watch with developing implications)
Fund-based - ST-Standby Line of Credit	-	-	-	5.00	CARE A1 (under Credit watch with developing implications)
Non-fund-based – ST Bank Guarantees	-	-	-	2.50	CARE A1 (under Credit watch with developing implications)
Non-fund-based – ST Letter of credit	-	-	-	20.00	CARE A1 (under Credit watch with developing implications)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	0.22	CARE A (under Credit watch with developing implications)	-	1)CARE A; Stable (28-Sep-18)	1)CARE A-; Stable (04-Sep-17)	1)CARE A- (05-Aug-16)
2.	Fund-based - LT-Cash Credit	LT	6.00	CARE A (under Credit watch with developing implications)	-	1)CARE A; Stable (28-Sep-18)	1)CARE A-; Stable (04-Sep-17)	1)CARE A- (05-Aug-16)
3.	Fund-based - LT-EPC/PSC	LT	25.00	CARE A (under Credit watch with developing implications)	-	1)CARE A; Stable (28-Sep-18)	1)CARE A-; Stable (04-Sep-17)	1)CARE A- (05-Aug-16)
4.	Fund-based - ST-Standby Line of Credit	ST	5.00	CARE A1 (under Credit watch with developing implications)	-	1)CARE A1 (28-Sep-18)	1)CARE A2+ (04-Sep-17)	1)CARE A2+ (05-Aug-16)
5.	Non-fund-based – ST Bank Guarantees	ST	2.50	CARE A1 (under Credit watch with developing implications)	-	1)CARE A1 (28-Sep-18)	1)CARE A2+ (04-Sep-17)	1)CARE A2+ (05-Aug-16)
6.	Non-fund-based – ST Letter of credit	ST	20.00	CARE A1 (under Credit watch with developing implications)	-	1)CARE A1 (28-Sep-18)	1)CARE A2+ (04-Sep-17)	1)CARE A2+ (05-Aug-16)
7.	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	1)Withdrawn (28-Sep-18)	1)CARE A-; Stable (04-Sep-17)	1)CARE A- (05-Aug-16)

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