

# Suven Life Sciences Ltd

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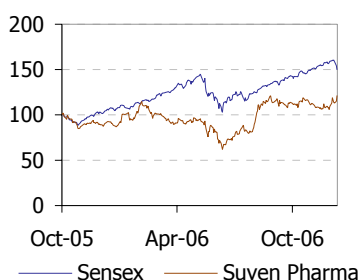
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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares : 25mn  
Market cap : Rs.2.7bn  
52 week high/low : Rs.117/ Rs.55  
Avg. daily vol. (6mth) : 69,800 shares  
Bloomberg code : SVLS IN  
Reuters code : SUVP.BO

## Shareholding (%) Sep-06 QoQ chg

Category	Shareholding (%)	QoQ chg
Promoters	55.7	0.7
FII's	15.8	(0.8)
MFs / UTI	3.3	0.0
Banks / FIs	0.0	(0.3)
Others	25.2	0.4

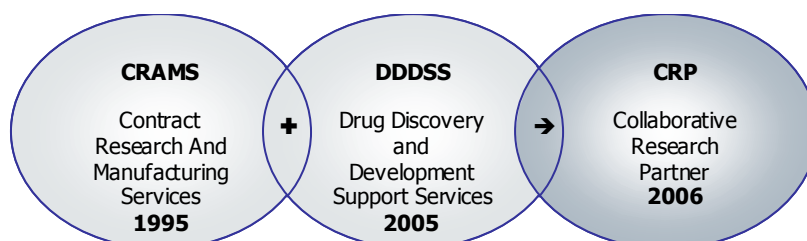
## EVOLVING RESEARCH MODELS

### From contract to collaborative research

We met the management of Suven Life Sciences (Suven) recently for an update. The company expects to file an Investigational New Drug (IND) application with the US FDA by January 2007, for its lead candidate for Alzheimer's disease. The management is in talks with several companies for a collaborative research deal for this drug and expects to close negotiations by end-FY07. It would receive some upfront payments, once the deal is finalized. Additionally, Suven also has an anti-obesity drug in early stages of development.

Currently, Suven is into drug discovery services (DDS) and contract research and manufacturing services (CRAM) to global pharma companies. About 90% of its current revenues come from the CRAM business and 10% from the API business. The management expects earnings from its base business to grow by 30% YoY through FY08.

### Suven's evolving business model



Source: Company

At CMP of Rs.107, the stock trades at 35.9x FY07E EPS of Rs.3 on fully diluted equity. The EPS estimates, as we are given to understand, do not include any potential revenues from a prospective out-licensing deal on the drug for Alzheimer's disease. The high valuations presumably reflect market expectations from a potential deal; we provide a table with EPS sensitivities to projected deal sizes, overleaf.

## Financial summary

Y/E Mar	Sales (Rs.mn)	PAT (Rs. mn)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	DPS (Rs.)
2005	636	24	0.8	(54)	111.9	5.9	13.5	28.7	1.0
2006	881	64	2.2	168	36.5	7.5	7.6	20.7	1.0
2007E	1,145	86	3.0	33	35.9	9.2	10.7	18.5	1.4

Source: Company, ENAM estimates; Note: fully diluted equity of 28.7mn shares

## EBITDA margin lower due to NCE R&D

Suven's total R&D expenditure was 22% of sales in FY06 at Rs.195mn, up 65% YoY. EBITDA margin for FY06 was 12%. The management indicated that almost 90% of the R&D expenditure was on NCE development, while the rest was on regular process R&D.

## VALUATION

### Implied value of the NCE business (USD mn)

FY07E	12x	14x	16x	18x
Value of CRAM business (A)	23	27	31	35
Current Market cap (B)	57	57	57	57
Value of NCE business (B-A)	34	30	26	22

Source: ENAM Research

- The current market cap of Suven is Rs.2.5bn (~USD57mn)
- Peers such as Divi's, Dishman and Jubilant are trading at 20-25x FY07E earnings, while a pre-dominantly API player e.g. Shasun trades at 13x FY07E.

### Sensitivity of the deal size for the NCE (USD mn)

Deal Size USD mn	Phase I	Phase II		Phase III		Dis. rate
	15%	20%	15%	25%	25%	15%
	FY08E	FY10E	FY13E	FY14E	FY15E	PV
50	8	10	8	13	13	22
100	15	20	15	25	25	44
150	23	30	23	38	38	66
200	30	40	30	50	50	87
250	38	50	38	63	63	109
300	45	60	45	75	75	131
350	53	70	53	88	88	153

Source: ENAM Research

- The present value of the expected deal size has been calculated by assuming milestone revenues over the product development cycle.
- It is assumed that 15% of milestones are received in year 1 (Phase I), 20% in year 3 (beginning of Phase II), 15% in year 6 (end of Phase II), 25% in year 7 and year 8 each Phase III).

### Upside/Downside in the market cap

		PV	Value of NCE Business			
			12x	14x	16x	18x
DCF Deal (USD mn)	50	22	(12)	(8)	(4)	(1)
	100	44	10	14	17	21
	150	66	32	35	39	43
	200	87	53	57	61	65
	250	109	75	79	83	87
	300	131	97	101	105	109
	350	153	119	123	127	131

Source: ENAM Research

- Cell marked in grey reflect the upside in the market cap depending on the size of the deal.
- Upside = DCF of deal less Value of NCE business.
- The value post commercialization is not considered and probability is not assigned for the drug under development.

## About Alzheimer's disease

Alzheimer's disease has no definite cure till date. The drugs prescribed to treat the disease increase the level in the brain of acetylcholine--a chemical that nerves use to communicate with each other. People diagnosed with Alzheimer's disease are deficient in this neurotransmitter, and the drugs work by inhibiting an enzyme called cholinesterase that breaks down the acetylcholine. These cholinesterase inhibitors have an effect on the symptoms, but there is no evidence that they have any effect on the underlying progression of the disease. During treatment, it has been found that the nerve cells were still dying and the various plaques and tangles were still forming.

Exelon (rivastigime) of Novartis, and Aricept (donepezil) of Eisai/Pfizer are the leading drugs available for Alzheimer's disease. In 2005 the global sales of Aricept and Exelon were USD1.9bn and USD467mn, respectively.

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