



Suven Life Sciences Limited

Q4 FY14 Earnings Conference Call Transcript

May26, 2014

Moderator Ladies and gentlemen good day and welcome to the Suven Life Sciences Limited Q4&FY14 Earnings conference call. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa of CDR India. Thank you and over to you, sir.

Gavin Desa Good day and thank you for joining us on this call to discuss the financial results of Suven Life Sciences for the quarter and year ended 31st March 2014. We have with us Mr. Venkat Jasti – Chairman & CEO; Mr. Venkatraman Sunder – VP Corporate Affairs and Mr. Subba Rao – GM-Finance.

Before we begin I would like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. Documents relating to the company's financial performance have been emailed to you earlier. I now invite Mr. Jasti to share some perspective of the performance over the quarter and year and its outcome. Sir, over to you.

Venkat Jasti Thank you Gavin and thank you participants on this conference call. FY2013-14 has been a tremendous year for us. It has coincided with our 25th year of operation and we are very happy that the growth has been very robust as sales have doubled and profits have quadrupled. As you are all aware that we have three molecules which were in the NCE space and going for NDA filings. We have supplied prelaunch quantities at R&D pricing and hence you see that not only has the top-line grown by INR 170 crore on account of the three products and healthy bottom-line due to these products.

As we have mentioned earlier that the repeat orders will take place after one year as they have to file for the NDA and go for marketing after which the repeat orders will show up. Sometimes it is likely that it could happen within six to nine months, but we are not taking those things into consideration so in that scenario we expect a normal growth and roughly the volume of business will be INR 400 crore to INR 450 crore and roughly about INR 80 crore to INR 90 crore maximum profit can be arrived. This is as usual after write-offs of R&D expenses that take place which is the case with Suven all the time.

We are hoping things will go well and with the Vizag plant which will get up and running by next April and will add \$15 million to \$20 million additional revenue in 2015-16. This will give you close to INR 600 crore plus turnover in the 2015-16 with a robust bottom-line. So this is in a nutshell as far as the CRAMS is concerned. With respect to the discovery program I think things are moving well in

Phase-IB of SUVN 502 and we hope to move this compound in to Phase-IIA during this year. Similarly SUVN-D4010 and SUVN-G3031 are undergoing IND enabling studies and we would like to enter in to Phase-IA during this year for both these compounds.

This is the current updates on the drug discovery program. So I think I have given you a gist of both the segments. Now I will take some calls and see what the questions you may have are.

- Moderator** Thank you very much, sir. We have the first question from the line of Runjhun Jain from Nirmal Bang. Please go ahead.
- Runjhun Jain** Just wanted to know that in Q4 as far as I remember the additional sales has come because of the two products which we have started supplying and as far as I remember this is supposed to end by this year. Am I right on that and for FY15 what kind of outlook you see because for FY16 you have given a broad number to us what about FY15, sir?
- Venkat Jasti** FY14 there is some residual things that have happened in the fourth quarter but as of now there is nothing for FY15. We have orders in place but we never know depending on how the NDA takes place and how the sales takes place with those molecules then we will know when the repeat orders will come. So as of now there is nothing on the platter.
- Venkatraman Sunder** As of now FY14-15 the revenue guidance was close to INR 400 crore to INR 450 crore that is what was given.
- Runjhun Jain** And any color on the bottom-line or EBITDA level, sir?
- Venkatraman Sunder** The normal profitability is going to be in the range of INR 60 crore to INR 80 crore that is what we are estimating as of now. And that if you really look at the EBITDA level it will be close to about INR 150 crore to INR 160 crore.
- Runjhun Jain** Sir, is it possible for you to quantify the amount of sales which you said it has been residual which has come in this quarter just to see the normalized profits or normalized results?
- Venkatraman Sunder** The sales for that residual product was very minimal in this last quarter it was only about close to INR 30 crore.
- Moderator** Thank you. We have the next question from the line of Ranjeet Kapadia from Centrum Broking. Please go ahead.
- Ranjeet Kapadia** My question relates to R&D expenses. We have approximately spent about 9.3% during the quarter and what is the guidance for the next year and how the tax rate is going to move next year?
- Venkat Jasti** The guidance as I have mentioned earlier is will be around INR 60 crore because we are going to do about two more I mean not taking in to consideration anything to do with the 502 Phase-IIA. This is only for up to Phase-I. So it will be total to the tune of INR 60 crore. With respect to the tax rate Sunder can let you know.
- Venkatraman Sunder** It is about 9%
- Venkat Jasti** The percentage will not come in the picture here because we are going by the absolute numbers.

Venkatraman Sunder INR 60 crore upwards could be approx.

Ranjeet Kapadia I could not get the number, sir?

VenkatJasti INR 60 crore.

Moderator Thank you. We have the next question from the line of Veena Patel from iWealth Management. Please go ahead.

Veena Patel Sir, I just wanted to have on annual basis for FY14 what was the quantity of sales from the pre-launched three intermediates and what was the contribution on the annual basis for the PAT level also?

Venkat Jasti The top level is around INR 170 crore roughly and it is more than 50% at the PAT level.

Veena Patel Sir, I just wanted to have an idea on what would be the gross margins for the pre-launched quantities and how would the gross margins span out once we go for the commercial launch quantities?

Venkat Jasti The gross margins when it comes to the commercial launches the prices will go down by 25% to 30% because it is not R&D anymore so you will see that post 2015-16. But what happens is until now we did not have this is on a day-in-day basis and when it comes back whatever the amount, it will have a base loading effect in the future revenues.

Veena Patel And sir, what was the CAPEX that we have done for FY14 I just want the gross block numbers?

Venkat Jasti CAPEX for FY14 INR 35 crore.

Veena Patel And out of the budgeted INR 60 crore for Vizag how much was spent in FY14?

VenkatJasti INR 20 crore plus.

Veena Patel How would be the FY15 CAPEX numbers?

Venkat Jasti It will be INR 100 crore.

Venkatraman Sunder It will be residual what we will be spending for the Vizag plant.

Venkat Jasti Both put together the old one and the new one it will be INR 100 crore.

Veena Patel So over the INR 40 crore would go for Vizag out of this INR 60 crore, INR 20 crore has already been spent in FY14 so the remaining INR 40 crore will come in FY15. So what about the INR 60 crore how much of that would be your routine or maintenance CAPEX?

Venkat Jasti Routine and maintenance CAPEX will be to tune of INR 30crore.

Veena Patel And we are going for a debottlenecking of certain capacities?

Venkat Jasti No, the Vizag capacity is the total INR 100 crore. Last year we had earmarked on INR 50 crore.

Veena Patel So total budgeted is how much for Vizag?

VenkatJasti INR 100 crore.

Venkatraman Sunder Total INR 100 crore the residual is INR 50 crore.

Veena Patel Sorry sir, I do not get the number for Vizag the total is how much?

Venkat Jasti Total is INR 100 crore the earmarked amount is only INR 50 crore but we could not spend all the INR 50 crore because only the equipment's started coming in from the month of April onwards.

Veena Patel Sir, what was the gross debt for FY14?

Venkat Jasti I think INR 59crore long term and INR 23 crore working capital.

Veena Patel Sir, how would be the debt going ahead for FY15 and FY16?

VenkatJasti Another INR 45 crore will be added.

Veena Patel And sir, what about the tax rate for FY15 and FY16?

Venkatraman Sunder Well, we do an higher tax mix as you see actually.

Veena Patel Sir, but as of now we had in the range of 20% plus.

Venkatraman Sunder 28%.

Veena Patel Okay so this would be for FY15 and FY16 also?

Venkatraman Sunder Well, FY15-16 we really do not know but FY14-15 we can say it will be between MAT and this 28%.

Moderator Thank you. We have the next question from the line of Purvi Shah from Dalal & Broacha. Please go ahead.

Purvi Shah Sir, we would like to know for the three pre-launch quantity products that we have done what is the time frame when we will get to know that. Before they get in to the launch stage how many months in advance we will be intimated that we will have to supply?

Venkat Jasti I think it can be as early as 6 months and sometimes it will be as late as 15 months.

Purvi Shah So the intimation to be given to us would come 6 months prior to the launch that we will have to supply, right?

Venkat Jasti That is true.

Purvi Shah And sir, just a clarity on the tax rate I just happened to miss it. What will be the tax rate for the next two years?

Venkat Jasti It will be between MAT and 28% which is anywhere between that percentage.

- Moderator** Thank you. Our next question is from the line of Prashant Kanuru from Karvy Stock Broking. Please go ahead.
- PrashantKanuru** Sir, like a few of my questions have been answered but coming to your debt figures the balance sheet shows a long term borrowing of INR 37 crore and short term borrowing of INR 28 crore. So that is the number right sir because one of the previous questions you said it is around INR 57 crore but I think long term borrowings is INR 37 crore?
- Venkat Jasti** Where did you see this number sir?
- Prashant Kanuru** This is for the 31st March balance sheet that has been given it says INR 37.72 crore long term borrowings and short term borrowings are INR 28.55 crore?
- Venkatraman Sunder** See this INR 27 crore consists of borrowings which will be maturing within one year out of the INR 66crore.
- Venkatraman Sunder** If you really look at it, there is a change in balance sheet which is happening where whatever is payable within next year 12 months actually you have to take it as a short term borrowings. So that is why the long term borrowings, short term borrowings there is a division that has happened.
- Venkatraman Sunder** If you see the note 5 of balance sheet.
- Prashant Kanuru** So you are saying long term borrowings is what is the figure for long term borrowings?
- Venkatraman Sunder** See long term borrowing has shown as about INR37.72 crore and short term borrowings is INR 28.55 crore and you add these two figures.
- PrashantKanuru** Okay, you are giving the added figure?
- Venkat Jasti** Yes.
- Prashant Kanuru** And you have not drawn down any debt from SBI till now for the Vizag facility?
- Venkat Jasti** A little bit we have drawn.
- Venkatraman Sunder** It is less than INR 2 crore that we had drawn down this year.
- Prashant Kanuru** How much did you draw down, sir?
- Venkatraman Sunder** INR 1.8 crore has been drawn.
- PrashantKanuru** INR 1.8 crore have been drawn down out of INR 45 crore?
- Venkatraman Sunder** Absolutely.
- Prashant Kanuru** And sir, the land on which this is going to be setup in Vizag it is company's own land title or is there some amount of regulation?
- Venkat Jasti** It is own land only.
- Prashant Kanuru** Sir, how much is the area sir the land?

Venkat Jasti 21 acres.

Prashant Kanuru And sir, like the capacity that is coming up at Vishakhapatnam that will be a capacity of phase one will be around 230 kilo liters?

Venkat Jasti That is right.

Prashant Kanuru And what about the complete full capacity, sir once the remaining expansion is also done what will be planned?

Venkat Jasti 1,000 kilo liters.

Prashant Kanuru All of these will be for intermediaries?

Venkat Jasti Yes.

Prashant Kanuru And this will be in addition to the capacity at Suryapet which is also for intermediaries?

VenkatJasti Yes, in addition to the capacity in Suryapet, Pashamylaram andJeedimetla.

Prashant Kanuru Sir, what is the capacity at Suryapet?

Venkat Jasti Suryapet is 300 Kilo Liters.

Prashant Kanuru And Pashamylaram is?

Venkat Jasti 250 Kilo Liters.

Prashant Kanuru And you have indicated additional revenue of \$15 million to \$18 million from Vishakhapatnam facility within the 230 KL?

Venkat Jasti Yes.

Prashant Kanuru And what is the CAPEX for the remaining 770 KL as and when it brought up out of two-third?

Venkat Jasti That will happen as and when the necessity comes because the first INR 100 crore we are spending not only on that block but also for the total infrastructure. So you go by the expenses will be not this much because it will be only based on that block based rather than the total infrastructure base. So now we are developing the whole part.

Prashant Kanuru So it will be coming down by around say at least 30% to 40%?

VenkatJasti Yes easily. Well, it will not be every year. We may be starting up yearly one block depending on the visibility.

Prashant Kanuru And sir, you said this Vishakhapatnam capacity expansion is for one intermediary which is already contributing \$15 million to \$18 million?

Venkat Jasti That is right.

Prashant Kanuru So this one intermediary alone will be contributing \$33 million to the company's top line?

VenkatJasti Yes, eventually for \$30 million.

Prashant Kanuru So sir, what is this intermediary about like?

Venkat Jasti This is a specialty chemical intermediate for one of the big companies in the US.

Prashant Kanuru You cannot indicate about the therapeutic areas or where it is used?

Venkat Jasti No.

Prashant Kanuru And sir, about the ANDA filing that you have done, it is just for one ANDA right sir that is?

Venkat Jasti That is right.

Prashant Kanuru And another 4 to 5 are in pipeline which will take at least 2 to 3 years more to file?

Venkat Jasti That is true.

Prashant Kanuru And when is the approval expected?

Venkat Jasti The first ANDA?

Prashant Kanuru Yes the first ANDA?

Venkat Jasti No, first ANDA is already approved and we already supplying quantities.

Prashant Kanuru We are already supplying the quantities?

Venkat Jasti Yes, this year we have started this March.

Prashant Kanuru Okay, supplying ANDA quantity has started from March and what is the top line expectation from there whether it will be base revenue which will be?

Venkat Jasti See the top line is not much, it may be around \$1 million.

Prashant Kanuru That is for the full year, sir?

VenkatJasti Yes, the bottom-line will be close to \$3 million because we are getting lot of royalty payments.

Prashant Kanuru So just the top line will be \$1 million but the bottom-line will be?

VenkatJasti Yes because as I say just at the cost we sell it then we will get the royalty.

Prashant Kanuru The royalty will not be shown in top line or it will be shown?

Venkat Jasti Royalty will be in the top line only but it will add up to bottom-line automatically.

Prashant Kanuru Because there will be no cost incurred for that?

Venkat Jasti That is right.

Prashant Kanuru So you can say that the total revenue from ANDA will be around \$4 million?

Venkat Jasti \$4 million roughly, yes.

Prashant Kanuru And sir, the therapeutic area for this ANDA head lice?

VenkatJasti Yes, head lice.

Prashant Kanuru So that would be so the market potential the total market size is \$20 million to \$25 million as of now?

VenkatJasti Yes, that is it.

Prashant Kanuru What is your hedging policy now because the rupee has appreciated from 62 to 58 and the balance sheet shows that you have a receivable of around INR 65 crore. So will there be a MTM loss or FOREX loss next quarter that will be booked?

Venkat Jasti A slight possibility is there but we are using this to make payments using the PCS accounts that is partial hedging and also we did some partial hedging in terms of covering the receivables also. So it may not be that much hit.

Prashant Kanuru So these are like forward contracts?

Venkat Jasti Yes.

Prashant Kanuru And sir, the present portfolio of CRAMs is still 98, right sir?

Venkat Jasti 99.

Prashant Kanuru Sir, how many in Phase-I then?

Venkat Jasti 52, Phase two is 46.

Prashant Kanuru And the remaining?

Venkat Jasti Phase-III has one only right now because the three which we had supplied before now we consider as a commercial.

Prashant Kanuru So one has come in to Phase-III?

VenkatJasti Yes from the Phase-II.

Prashant Kanuru So in the CRAMs business if we take out the intermediary which is expected to contribute around \$33 million starting from FY16 from the present level of \$15 million to \$18 million the remaining will come from these 99 molecules?

Venkat Jasti Yes.

Prashant Kanuru And sir, like so you just have one in Phase-III?

VenkatJasti Yes, that is now.

Prashant Kanuru Sir, and when is this SUVN-502 expected to come in to 2 how much more time will it take?

VenkatJasti it has to go in to Phase-II (A) first.

Prashant Kanuru Sir, like how much time will it take, still it is in Phase-I (B), right sir?

VenkatJasti Phase-I (B) will be over in June and the results will come in July end. Then we will start by filing the paper work. Before this year it should start enrolment.

Prashant Kanuru So before end of the year it will start enrolments and okay so out-licensing if and when successfully done will be around 2017 or 2018?

Venkat Jasti Even before that it can happen if somebody is interested in taking the molecule at this stage which is a possibility also, but as of now nothing has happened.

Prashant Kanuru Sir, like just a sort of a hypothetical question. Say if you get a good amount of money from out-licensing and considering the capabilities that the company has considering the various processes like alkalization or formulation and even these are processes which are used for making products for chemotherapy or even for anesthesia related products. So can you use that out-licensing and get in to a full-fledged ANDA filings and get in to generics of formulations market of USA or Japan or anything because you already have the competencies just that you have to increase the commercial capacity?

Venkat Jasti Money is not the question here I mean if I want to start any kind of a new business it has to be a business model and we are now doing is add on things. We are not a marketing based company. That is why we were not going that aggressively but as time goes by our pipeline will increase and automatically the bandwidth will increase.

Prashant Kanuru Sir, just one last question on the estimation side. You said INR 400 crore to INR 450 crore of revenue for FY15, right sir?

Venkat Jasti Yes.

Prashant Kanuru And the intermediary for which the expansion will be carried out will be contributing around \$18 million of this?

Venkat Jasti That is right.

Prashant Kanuru And you have taken this at an exchange rate of 60

VenkatJasti Yes roughly 60.

Prashant Kanuru And the remaining will be servicing the remaining 98NCEs?

Venkat Jasti Yes.

Prashant Kanuru So this intermediary is not constituted as a part of the 99 NCEs, right sir?

Venkat Jasti That is right it is not.

Prashant Kanuru And the EBITDA margin post R&D expenses will be around 30%?

Venkat Jasti Which one EBITDA margin?

Prashant Kanuru I said operating margin sir, what is it?

Venkat Jasti (+20%).

Prashant Kanuru 20% and net profit margins will be around 15%?

Venkat Jasti 14% to 15%.

Prashant Kanuru For FY16 you are projecting INR 600 crore and above?

Venkat Jasti That is right.

Prashant Kanuru Okay sir, that is because you are expecting around INR 90 crore to come from post-successful launch of the three molecules and another \$18 million to come from the Vishakhapatnam facility?

Venkat Jasti Right.

Prashant Kanuru And one last thing this what is the total land area in Suryapet and Pashamylaram?

Venkat Jasti Pashamylaram is 10 acres; Suryapet is 90 acres.

Prashant Kanuru And Jeedimetla, sir?

Venkat Jasti Jeedimetla is 2 acres.

Moderator Thank you. We have the next question from the line of Apurva Mehta from KSA Shares & Securities. Please go ahead.

Apurva Mehta Sir, on that SUVN-502 when will the Phase-II be starting or most probably in Jan?

Venkat Jasti Yes.

Apurva Mehta So what will be the funding cost required for that?

Venkat Jasti That is required about \$20 million over a period of 24 months for this part.

Apurva Mehta What are your plans to get funding?

Venkat Jasti As of now we have not started any plans for funding because we do not need all the money at one go. Of course this will start in January then two years are there and depending on our visibility whether we will go or not go we will take a decision at that time but to start with we will have enough money to fund ourselves.

Apurva Mehta And any other pipeline which you are aggressively going on Phase-I or further going on?

Venkat Jasti Yes, SUVN-4010 and SUVN-3031 there are two compounds that you will enter in to Phase-I during the 2014-15.

Apurva Mehta So what will be that cost?

Venkat Jasti That will be usually around \$4 million both put together additional cost.

Moderator Thank you. We have the next question from the line of C Shrihari from TCS Securities. Please go ahead.

C Shrihari If I look at the guidance that you have given you have guided for a best case start of INR 60 crore for the current Fiscal, right?

Venkat Jasti Yes.

C Shrihari And apart from that the royalty from the ANDA would be around \$3 million?

VenkatJasti Yes, that is why we said around INR 80 crore to INR 90 crore is the total profit.

C Shrihari For the current Fiscal?

VenkatJasti Yes.

C Shrihari And this is a more of sustainable kind of a number?

Venkat Jasti Yes.

C Shrihari And you have one more molecule in Phase-III right now?

Venkat Jasti Yes.

C Shrihari When do you expect commencement of supplies of pre-launch quantity?

Venkat Jasti We have no idea as of now because we just moved it in the last three months. If you remember we used have only 3 molecules in Phase-III and all of them have gone in to now pre-commercial. We have kept them as commercial products and luckily for us one molecule from Phase-II to Phase-III moved. I think usually it takes about 24 to 30 months before we see the commercial supply, if this is successful it could be in the radar.

C Shrihari So I think the most likely scenario would be for the next Fiscal we expect?

Venkat Jasti Possibility is there but no guarantees.

Moderator Thank you. We have the next question from the line of Surya Narayan Naik from Sun Capital. Please go ahead.

Surya Narayan Naik Sir, regarding the Alzheimer disease, what is the global market size at the moment and who you believe will be the most the befitting competitor?

Venkat Jasti See as of now this Alzheimer molecule it is considered as a \$250 billion market put together all direct and indirect costs. But as far as the medication cost is concerned it is around \$10 billion. And as of now there is no drug available, whatever is available is now a generic plus there is no innovative drug in the market and there is a huge unmet medical need and there are so many people who are working on this molecule both for a disease modifying and symptomatic treatment. The disease modifying is a decade away to come in to marketing, whereas in the symptomatic there are about 50 to 60 people. I think we are one of the three people that are in the top line, one is the Lundbeck and Otsuka, the other one is the Pfizer and the third one is ours and we know there are so many other people which

are following us. It is nothing like a competitor it is only meeting the requirement of the unmet medical need. So anybody is going to make it to the market is going to have a huge potential because there is no marketable drugs as of now.

- Surya Narayan Naik** And you said just now you will be launching two molecules SUVN-4011 and SUVN-3031 I guess. Are they into the central nervous system or anything else?
- VenkatJasti** Yes, they are also in to central nervous system. This is also using the cognitive effects both for the Schizophrenia and Alzheimer's and ADHD. It is multi-activities and as I said it will be going to phase one in this year.
- Surya Narayan Naik** For these two molecules what kind of budget I mean CAPEX you have?
- Venkat Jasti** \$4 million revenue expenditure.
- Surya Narayan Naik** Yes, it is a revenue. And what would be the molecules which will be commercialized in FY15 if you can give guidance?
- Venkat Jasti** There is nothing as of now.
- Surya Narayan Naik** In medium term at least in FY17 horizon?
- Venkat Jasti** Commercialization is by our customers, right not by us. We expect at least the one which is in Phase-III. I can go in to the commercial opportunity and also whatever we won which we have supplied the pre-launch will become the commercial repeat supplies to these molecules.
- Surya Narayan Naik** And based on your understanding with your customers what kind of growth for next two to three years CAGR we can expect from CRAM side?
- Venkat Jasti** I mean since we have regular growth only about 20% to 25% the growth are year-on-year basis.
- Moderator** Thank you. We have the next follow up question from the line of C Shrihari from TCS Securities. Please go ahead.
- C Shrihari** I can see your guidance for FY16 is the bottom-line of INR 90 crore base case?
- VenkatJasti** Yes.
- C Shrihari** And do you expect a similar amount to flow in that is around \$3 million to \$4 million for the ANDA that you have out-licensed?
- VenkatJasti** Yes sure.
- C Shrihari** That means overall once again the guidance will be close to INR 110 crore?
- Venkat Jasti** No, which one you are talking about?
- Venkatraman Sunder** I think INR 80 in Q3.
- Venkat Jasti** That also included.
- C Shrihari** Yes, that is for Fiscal 15?

Venkat Jasti FY16 you are talking?

C Shrihari YesFY16?

VenkatJasti 16 yes, that is what we expect.

C Shrihari But it will be 90 plus 20?

Venkat Jasti Yes.

Moderator Thank you. As there are no further questions from the participants, I now hand the floor back to the management for closing comments.

Venkat Jasti Thank you Gavin for arranging this Conference Call and we hope we have answered all the questions and we are hoping if any other follow up questions and you can send it to me or to Rabindra or to Venkatraman Sunder and thanks again for having this conference call.

Moderator Thank you, sir. Ladies and gentlemen on behalf of Suven Life Sciences Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.