



## Suven Life Sciences Limited

### Q3 and 9 Months FY19 Earnings Conference Call Transcript

### February 6, 2019

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**Moderator:** Ladies and gentlemen, good day and welcome to the Suven Life Sciences Limited's Q3 and 9 months FY19 earnings conference call. As a reminder, all participants' 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 \* and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you, sir.

**Rishab Barar:** Good day everyone and thank you for joining us on this call to discuss Suven Life Sciences Q3 and 9MFY19 Earnings. We have with us Mr. Venkat Jasti, the Chairman and CEO; Mr. Venkatraman Sunder – Vice President of Corporate Affairs as well as Mr. Subba Rao – the CFO.

Before we begin, I would like to mention that some statements made in today's discussions may be forward looking in nature and may involve risks and uncertainties. Documents relating to the company's performance have been mailed to you earlier. I now request Mr. Jasti to share his perspectives on the performance and outlook. Over to you, sir.

**Venkat Jasti:** Good afternoon everyone. Thanks for tuning in for our quarter 3 results update. As you could see even though there is a quarter-on-quarter improvement, but year-on-year, it was just flat on the top-line and bottom-line is less by 15% as of today and the reason for this is some of these commercial products which we thought we will be getting, did not materialize and got postponed and also the raw material situation which also delayed the delivery, but the fourth quarter looks much better and of course, whatever the shortfall, we are expecting Rs. 80 to 90 crore of commercial CRAMS, which we are not going to achieve this year, will be certainly moved into the first quarter of next year.

Things are looking good next year, things are moving very well this quarter also, but this year, more or less, may be 5% less on the top-line and 10% less on the bottom-line, but next year is going to be much better because of the traction that is happening both on the delivery schedules and based on the supplies of raw materials from China and also new forecast given on the commercial CRAMS from our customers. As far as the Discovery is concerned with respect to the innovation, our SUVN-502 is going on well and we will be completing our study. The top-line data as we have mentioned, we hope to get it by July, so that we can present this in the Alzheimer's Association Conference in Los Angeles in July. That is our target date and that is for SUVN-502.

With respect to SUVN-G3031, we have more or less finalized the protocol and now we are in the process of evaluating the CROs who can take up this project and in adequate time frame would like to start the Phase-2 clinical trial involving about 150 patients for 2 years. That is for an indication for the narcolepsy, that is excessive day time sleepiness and other molecules are progressing well. The long-term safety toxicology is going on for SUVN-911 and SUVN-D4010 and one more molecule also will move into phase I within the next 3 to 4 months.

The third aspect which is a new item is that in yesterday's board meeting we have decided to demerge the CRAMS side business into Suven Pharmaceuticals Limited, which is a wholly owned subsidiary and this process will take 6 to 9 months in total for approval and automatically SPL will be listed without an IPO process, when once the NCLT approved this and is the mirror demerger, so every shareholder will have one share of Suven Life Sciences and one share of the Suven Pharmaceuticals Limited. This is mainly to unlock the value and also to attract either the strategic partner or anybody who has interest in their own specialty either in CRAMS or in Discovery to align with us for future requirements. So with this, I leave the floor open for questions..

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.

**Rashmi Sancheti:** Sir, related to your demerger process, one question which comes in my mind is that how would the funding for NCE molecules take place because what I understand till date whatever cash flow we generate from the CRAMS business is basically utilized for your NCE R&D, so how we are going to do this kind of funding?

**Venkat Jasti:** It is in the process what we have done in distribution of the assets, the cash is kept in the Suven Life Sciences itself, whereas all the receivables and all those things including a lot of assets belongs to the CRAMS side of the business. That is why we have about Rs. 300 crore of cash which will be left in the Suven Life Sciences that will be used for funding the R&D for the next 3 years.

**Rashmi Sancheti:** And sir, since you mentioned that your commercial quantity, the orders have slipped to the first quarter of next year, so what kind of guidance you are giving, like what would be the revenue for this particular year?

**Venkat Jasti:** The revenue may be 5% less at top-line and 10% less at the bottom-line compared to last year.

**Rashmi Sancheti:** You mean to say the total revenue?

**Venkat Jasti:** Yes.

**Rashmi Sancheti:** Total revenue in the sense which includes CRAMS as well as specialty chemicals and everything?

**Venkat Jasti:** Everything put together.

**Rashmi Sancheti:** And sir, any guidance on the margin front because on standalone basis also, our margins are getting slipped from, is it already below 30% now?

**Venkat Jasti:** It will move up in the fourth quarter certainly, but compared to last year, it will be a little bit less because what happens is the commercial CRAMS will see a much better the bottom-line which is not there and that is why this aberration.

**Rashmi Sancheti:** But sir, otherwise also, if you see in FY18, our standalone margins were around 36 to 37%, but we are not even doing 30% plus, we have actually gone to now 27 to 28%, so what are the reasons behind that and what exactly will we see in FY20 and 21, whether it will be coming back to 32 to 33% or it will remain in the same range?

**Venkat Jasti:** No, it will certainly come to 32 to 35% in the '19 and '20 because as I said, as of today, we could see we have done only Rs. 38 crore for 9 months, the commercial versus last time about Rs. 70 crore roughly, Rs. 65-70 crore. That is one thing and also the product mix change, more early stage products also give you less margins, but next year, I think we have not only the commercial which is going up pretty good including the postponement whatever supposed to happen this may be Rs. 30 to 40 crore of this year going to third quarter and also one molecule going into Phase-3 indication is there. That also will give you better profit margins and also the top-line and bottom-line.

**Rashmi Sancheti:** And sir, lastly on R&D, if you can just give like what is the total expenditure till date on SUVN-502 during 9 months and what is expected in quarter 4?

**Venkat Jasti:** \$4.85 million, total as of today, we have spent about \$19.94, roughly \$20 million.

**V Sunder:** Of which 9 months figure is about \$4.85 million, so one more quarter probably will be spending about another \$2 million and that is expected this quarter.

**Rashmi Sancheti:** And we have not spent anything yet on the other molecules, right?

**Venkat Jasti:** Not yet, it is in the evaluation stage and it will start in April.

**Moderator:** Thank you. Next question is from the line of Rohan Advant from Multiact. Please go ahead.

**Rohan Advant:** Sir, my first question is regarding the demerger and the R&D apportionment post that, so if you see even from our standalone books, we do a significant R&D, which was Rs. 58.5 crore in FY18, so post the demerger, how much of that R&D would stay with Suven Life Sciences and how much of that would move to Suven Pharmaceuticals?

**Venkat Jasti:** 70:30, Life Sciences will have roughly 70% and 30% goes to the CRAMS side of the business, so then the EPS will naturally go up.

**Rohan Advant:** Sir and what is the consideration that was paid for acquisition of shares of Suven Pharma sir?

**Venkat Jasti:** One lakh, this is created for the purpose of demerger only.

**Rohan Advant:** Sir and you said you have cash of Rs. 300 crore per 3 years, what happens beyond that? Will any funds be given by Suven Pharma to Life Sciences for R&D post that?

**Venkat Jasti:** What happens is when people who come and want to align with us who have risk appetite to invest in the innovation, when they see the combination, they are not interested, vice versa some people who are interested investing in the CRAMS side of the business and the see discovery where the money is being spent without guarantee of the results, they are not interested. So whoever comes here, everybody is requesting that it is better to have a separation so that people with appetite for the right side of the business, will invest into it. In three years time, we should have hopefully some monetization in the Suven Life Sciences Limited (SLSL) side. If not, some strategic investor will certainly come based on the IP we have and the number of molecules, which are getting into Phase-1, Phase-2 and all that stuff. So I don't see any problem getting funding.

**Rohan Advant:** Sir and lastly on SUVN-502, sir we just read that there has been some Phase-3 discontinuance by Roche which was also I think targeting early Alzheimer's. Does it have any implication on us because I think we are more at moderate Alzheimer, so maybe not comparable, but does it have any implication on ours?

**Venkat Jasti:** You need to know that the Roche molecule is not a symptomatic treatment, it is a disease modifying treatment. None of the disease modifying treatment has come to the floor. So far, we have 7 failures, after spending about \$15 billion (by major pharma companies around the world). Only symptomatic have come into the market earlier like, the Donepezil, the memantine, the Rivastigmine and whatever, so we are in the symptomatic treatment, so it is a completely different ball game and there are not many people left because of not having good safety is main reason and of course going along with this efficacy. As far as we are concerned, because it is a double-blind study, we don't have any idea what is going on with the efficacy, but since we meet with the Drug Safety Monitoring Board quite often because it is statutory who reports to the FDA (in case of any Serious Adverse Events), the safety is very well established. There is not even a single Serious Adverse Event (SAE) related to the drug. There are adverse events because of the age and concomitant medications etc., but the safety is very well established and we are keeping our fingers crossed for our July data readout.

**Moderator:** Thank you. We would take the next question from the line of Kunal Nalvaya from Invesco Financial Advisors. Please go ahead.

**Kunal Nalvaya:** Sir, I have a question on demerger. Sir, I went through all the results of last 3 quarters and I was noticing that our 90% of the revenue and all the liabilities and assets are from CRAMS business and only 10% are from DDDSS, drug discovery and development. Sir, I just wanted to know what will be future revenue of SLSL after demerger of CRAMS business?

**Venkat Jasti:** Actually, I don't know where did you get this 10%. There is no 10%. It is not a DDDSS, this is technical services we do, it is a miniscule in the SLSL, there will not be any revenue. You can take it as good as zero even or whatever you get Rs. 1 or 2 crore has no meaning. So there is no revenue as of now until demonetization takes place.

**Kunal Nalvaya:** And the second question is about our wholly owned subsidiary in US, Suven Neuroscience, sir I just wanted to know what are the main benefits of that company. Actually, when SUVN-502 is with Suven Neurosciences, though the income arising from SUVN-502 will be of Suven Neuroscience only, our taxation in every aspect will be in US, so what is the benefit of SLSL in that even though it is wholly owned subsidiary?

**Venkat Jasti:** The wholly owned subsidiary, whatever you are getting there also comes to the main company.

**Kunal Nalvaya:** The taxation aspects and every other we have to comply with US only?

**Venkat Jasti:** The thing is keeping your IP in India, you don't get a valuation and what happens is when even though it is a wholly owned subsidiary, this has been transferred on a success-based royalty which will accrue to SLSL. If they get something like any, suppose if I sell my molecule or out-license my molecule, whatever the royalty I get, out of the royalty you will get some part of it to SLSL straightaway.

**Kunal Nalvaya:** And sir, just before you said that you will get funding easily because the molecules are going in Phase-2 and Phase-3, but sir still funding.

**Venkat Jasti:** I did not say earlier because they are going in Phase-2, Phase-3 I said because of the what you call, the number of molecules in the pipeline, it depends on people with risk appetite.

**Kunal Nalvaya:** Sir I agree on that but still, funding is contingent. Sir, we are not sure that we will get all the funding. If we are not able to get the funding which we are requiring for further research, then what are your plans?

**Venkat Jasti:** We are very confident. We will see that when it comes to that point 3 years from now.

**Moderator:** Thank you. Next question is from the line of Jeevan Patwa from Candy Floss. Please go ahead.

**Jeevan Patwa:** Only one question actually. The move of separating the two, the division is actually very good move and has happened on the right time, so congratulations for that. My question is I just wanted to understand if you can just give some details about your expanded access program, so how many patients have been enrolled in that and if there is any colour on that?

**Venkat Jasti:** As of now, we have 24 people.

**Jeevan Patwa:** And typically, they have passed 3 months or 4 months?

**Venkat Jasti:** On an average, some of them crossed 4 months, few of them are little less than 2 months actually.

**Jeevan Patwa:** What was the reason, do you see good results, positive results or something from that?

**V Sunder:** We don't collect data from the Expanded Access Program.

**Jeevan Patwa:** So you don't have any data from that?

**V Sunder:** Yes, we are not supposed to collect the data, we are just supposed to provide the medication on a compassionate basis, so there is no collection of data on that. We cannot analyse also.

**Venkat Jasti:** And cannot be used also.

**Moderator:** Thank you. Next question is from the line of Ritesh Baghwati from Rockstud Capital. Please go ahead.

**Ritesh Baghwati:** Sir, I have one question, for example, if our SUVN-502 drug gets successful, so under which entity the income will get booked, under SLSL or SPL, that is my first question?

**Venkat Jasti:** It will be booked under SLSL.

**Ritesh Baghwati:** This SPL which is I believe is having only CRAMS business, do you believe our CRAMS business will continue to sustain at the historical levels?

**Venkat Jasti:** If you see when you are taking out the expenses out of your CRAMS which we are writing off, your value goes up and you are unlocking the value also and in addition to that as I was telling you in my initiation that next year looks very good in terms of the repeat orders and also the new business that is coming in the CRAMS. CRAMS is the one that is giving us the bread all these years and there are no guarantees on the innovation. We are only conjecturing, right, so the CRAMS is the one and the valuations with other companies vis-à-vis is less than 40% to 50% and if you now take out the expenses, we are writing on behalf of the drug discovery, our values will go much further. That is the reason why everybody is looking for this demerger which we have taken up at this time.

**Ritesh Baghwati:** Just last question, what would be the timeline of the demerger and the listing?

**Venkat Jasti:** It is contingent upon this NCLT process, we have expected this to happen within 6 to 9 months.

**Ritesh Baghwati:** And you said the listing will happen for IPO process?

**Venkat Jasti:** After the NCLT approval, then automatic listing of SPL will take place without an IPO process. That is the demerger process.

**Moderator:** Thank you. Next question is from the line of Satish Bhatt from Anvil Shares. Please go ahead.

**Satish Bhatt:** Sir, one thing, how are the patents going to be transferred or this is going to remain with Suven or it is going to be transferred to the R&D company, can you throw some light on that?

**Venkat Jasti:** The Suven Life Sciences today that exists still remains as Suven Life Sciences. Only the CRAMS is going out into SPL. All the patents related to CRAMS also goes into SPL, but all the drug discovery part will remain at the Suven Life Sciences which is the parent company.

**Satish Bhatt:** And sir, any plans to value your patents as of today, we have 6 or 7 drugs working on different shares, any plan to get international patent guy who can value your patents, something like that? So before listing some, we can get a rough value what your patent is really worth?

**Venkat Jasti:** That is only good in US. The value (value for patents) has no meaning here.

**Satish Bhatt:** But when we intend to get new partners or may be risky investors in our R&D business, so don't you think that would be a fair value to get done?

**Venkat Jasti:** One step at a time, we have to get this separated first because people are now intermixing they cannot give you a good valuation (for patent). If it gives you good valuation also, it is not continuous because there is no guarantee on the monetization aspects, but in US when this is completely an innovation company, then they will vary the total pipeline, at that time we will certainly do that exercise that is in our mind. That cannot be done today because that does not give you a good valuation at this time.

**Satish Bhatt:** And sir one thing. Once we demerge our CRAMS business, on a sustainable basis, can we say that our margins will remains 40 to 42% immediate margin?

**Venkat Jasti:** We always say 35% level.

**Satish Bhatt:** But sir, if you go to that calculation, we come at around 40 to 45% ranging between whichever?

**Venkat Jasti:** So you are taking only the things that are positive, but I am giving you a realistic figure on an ongoing basis. If I say 45 tomorrow you will come and say 41 you added at 8% I am telling you an average 35% is what I mentioned for good and that will be maintained. It will be a positive, it will be good for everyone.

**Moderator:** Thank you. Next question is from the line of Pritesh Cheddha from Lucky Investment. Please go ahead.

**Pritesh Cheddha:** Just to confirm the EBITDA of post R&D EBITDA for Suven Pharma adjusting for the spend in the new molecule. We have got Rs. 170 crore for 9 months. Did you mention \$4 million, \$4.5 million spend on new molecules for 9 months?

**Venkat Jasti:** That is only clinical trial part which is not written off here. What is the total 3 quarters we have written off?

**V Sunder:** For three quarter put together is Rs. 42.4 crore.

**Pritesh Cheddha:** So your post R&D EBITDA which you are reporting in the PPT at Rs. 139 crore, should I add the Rs. 42 crore to arrive at the Suven Pharma?

**Venkat Jasti:** That is correct.

**Pritesh Cheddha:** And there won't be any corresponding revenue number obviously for Suven Life, right?

**Venkat Jasti:** Correct. No.

**Pritesh Cheddha:** And what would be the growth in the pharma business in FY20? What would be your growth guidance in pharma business considering whatever visibility that you have as on date?

**Venkat Jasti:** Based on visibility, we see about 15% growth on the top-line and the bottom-line compared to this year, it will be about 20 to 25% growth.

**Pritesh Cheddha:** So which means that the margins though you have compensated?

**Venkat Jasti:** Would be much better compared to now.

**Pritesh Cheddha:** Though a question that back you commented that one should take 35% margin that comment at least is not valid for next year?

**Venkat Jasti:** If that comes positive that may be good, but what I have given you is only for one year and I am giving it an average.

**Pritesh Cheddha:** 25% bottom-line growth, in any case assume a similar margin which is what you have reported about 40% in FY19?

**Venkat Jasti:** Right.

**Moderator:** Thank you. Next question is from the line of Ashish Rathi from Lucky Investment. Please go ahead.

**Ashish Rathi:** This is Ashish Rathi this side. Sir, wanted to check on your ANDA filings. Last week you had spoken that we had three own and two partner, if I am not wrong, how much you have now, what is the status?

**Venkat Jasti:** Nothing this quarter, same thing as of now, I think something may be done this quarter or if not first quarter.

**Ashish Rathi:** And sir, just referring to the previous question only, in terms of growth in CRAMS sir, frankly we have seen in the last 5 years, the growth has not been that strong, we have seen some 8% kind of a CAGR and part of it will be contributed through currency as well. What is giving us the confidence for this 15% kind of growth sir?

**Venkat Jasti:** For CRAMS?

**Ashish Rathi:** You have the order book visibility on that. Is that a fair assumption sir?

**Venkat Jasti:** Combination thereof, some order book visibility and also the information from the customers.

**Ashish Kacholia:** This is Ashish Kacholia here. Just wanted to ask whether now separating out the two companies, does it we have some more bandwidth within Suven Pharma to kind of focus on growing the CRAMS business a little faster?

**Venkat Jasti:** They are two different verticals and two different types of people who are doing it and there is no this thing, it is only the opportunities that has to come and the success of the molecules at the clinical trials for the innovators, he is one that gives us the business into commercialization or moving from phase to phase. There is nothing like that. Everything is completely separate entities as far as the operations are concerned, but only the finance is concerned is together which is giving us some kind of **clarity** of the profits which is giving the less valuation for the CRAMS side of the business and also some hesitation for those people who wants to invest in this side of the business and this is what they have been requested by each and everybody, 95% of the investors, not only investors, the analysts/fund managers,, it will be nice that you will be separate things and that

would have come in and all that stuff. So that is the reason why we have done that. There is no question of not doing this, so here it is doing it faster again. It is all a question of success of the molecule.

**Ashish Kacholia:** So it is not that you are going to suddenly recruit some more sales people in the CRAMS side of the business, who are going to go out and get more business, it is nothing like that. I mean you are going to grow the business at whatever pace that you have been growing it at?

**Venkat Jasti:** This is business, it will grow and if needed as you could see, we are investing about Rs. 200 plus crore on the CRAMS side of the business. Those things will come into the picture by 2020 onwards after all these things will accumulate. When the people are needed, we will hire them and things will move on. It is together or separate, why we are separating is to unlock the better valuation for both of them.

**Moderator:** Thank you. Next question is from the line of Sriram Rathi from ICICI Securities. Please go ahead.

**Sriram Rathi:** Sir, one thing, of course this R&D around 70% will go away to the Suven Life Sciences now after the demerger and will there be any other cost items also like staff cost or something which will also go out because there will be some manpower which will be going to Suven Life Sciences and may not be part of Suven Pharma?

**Venkat Jasti:** That includes the manpower.

**Sriram Rathi:** So R&D is including everything.

**Venkat Jasti:** No, what is that we are talking about the R&D includes the manpower, so 70% for the discovery and 30% is more or less only the human resources cost because all the cost of raw materials is charged on to the project itself, so that is not taken as R&D expense, so only human cost is taken to R&D, so that is the 30%.

**Sriram Rathi:** What is the timeline for completing this demerger, around what time, how many months will it take?

**Venkat Jasti:** They said it takes 6 to 9 months minimum.

**Moderator:** Thank you. Next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.

**Kunal Mehta:** Sir, just wanted to confirm one thing that the specialty chemical business which we have where we supply single chemical and the assets which we have employed for the formulations that will also be a part of this Suven Pharma, right?

**Venkat Jasti:** Everything was Suven Pharma (CRAMS). All the manufacturing related things will be Suven Pharma.

**Kunal Mehta:** And sir, just wanted to understand that considering the nature of our CRAMS business, you have been guiding us in the past that the growth purpose of this

business are somewhat, I would say lumpy, so we have to see things not from a one-year perspective but from 3-year set perspective and this is what has happened in the past that we had earlier in the Rs. 300 crore revenue rise and we shifted to Rs. 500 crore and then last year, we broke to Rs. 600 crore. So if I have to look at a business, the business from the 3 years perspective considering the pipeline for which you have a view, can you just give us understanding of how considering the molecules there in Phase-3 will now be commercialized over a 3-year basis and help in growing the business?

**Venkat Jasti:** It is like this, there is no guarantee that the Phase-3 molecule will go into commercialization, unless it passes the clinical trials. So as I said, this all depends on the success of the molecules and also movement of the molecules from stage to stage which is also again success at the clinical trial, so that gives us the business other than the speciality chemicals.

**Kunal Mehta:** And sir, can you just quantify how many molecules would you have in Phase-3 with respect to the pipeline which we have at the present?

**Venkat Jasti:** Right now, 79 in Phase-1, 34 in Phase-2, 1 in Phase-3, 4 in commercial.

**Moderator:** Thank you. Next question is from the line of C Srihari from PCS Securities. Please go ahead.

**C Srihari:** Two questions basically. Can you please tell us a little about the commercial products, how they are filed over the years and what are the prospects and you mentioned one more molecule is likely to get commercial, so a little more on that and secondly you spoke about a strategic investor, so from these two particles, where is the interest more and are there any concrete proposals?

**Venkat Jasti:** Chicken or an egg is a question unless you have the things in place, nobody shows or pats on your door step, but everybody that comes to know the picture, they say, hey had it been like this, I would have been here, so we don't need it right now, the cash wise, but in order for us to have this in place, we need to do this demerger process that is why we have taken up this, there is nothing on the table and we have not approached anybody that this is not necessary also; that will happen eventually. After the demerger, we will look into whenever it is needed. As I said, even for the discovery, we have 3 years cash on hand so we will look into it after 1.5 years or else if there is a value that unlocks, so post the demerger then we will look into it also. So with respect to the commercial CRAMS is concerned, it is depending on how are we going to do. I mean, 2014 we did 175 and 14-15 we did only 45, again 16-17 about 34, last year we did 120, this year looks like we are going to do about 70 but next year, it looks like we are going to do much better, may be 120-150 in that range because some of the things which were supposed to happen this year also moved into the next year, so next year may be a better year for that reason.

**C Srihari:** So, right now you have 4 commercial products, right?

**Venkat Jasti:** Yes.

**C Srihari:** Basically, how are they shaped up in terms of getting better market share?

**Venkat Jasti:** It is nothing like a better market share. Here, one or 2 or 3 suppliers of that molecule, how the molecule fares in the market and how much we stock the

material, it all depends on that. We expected something to come this year, but they said it is not in this year, it will come to the next year because their sales are not that great based on their projection. Otherwise, the sales are great, but have more than billion dollar sales but their expectations are much more and also everybody has to understand that nowadays, the cost of API itself is less than 1% of the sales and out of that, we are supplying the advance intermediate. So you cannot calculate based on the sales, it is only the requirement that comes in, so it keeps coming at back and forth as it is lumpy and it all depends on how best the molecules are faring in the market.

**C Srihari:** So if I did it right, the 4 commercial molecules are fetching innovators around a million dollars cumulatively?

**Venkat Jasti:** More than that.

**C Srihari:** And you mentioned one more molecule is likely to get commercial, can you tell us about that?

**Venkat Jasti:** Likely, but there is no guarantee.

**C Srihari:** Which therapy is that?

**Venkat Jasti:** That is going to be the cancer.

**C Srihari:** So that will make it to oncological products then.

**Venkat Jasti:** Yes, if it goes into the next level, it will be a commercial product.

**C Srihari:** And one just last question. The interest is more for which vertical in terms of investor?

**Venkat Jasti:** First of all, we are not looking for investors and second of all nobody has come to us, third of all it is a perspective only, not something else. That is what we are doing here, so we don't. When we don't need anything, we don't look into any opportunity also.

**C Srihari:** So basically, as things turned now, it is more of a value unlocking strategy.

**Venkat Jasti:** Yes, right.

**Moderator:** Thank you. Next question is from the line of Darshit Shah from Nirvana Capital. Please go ahead.

**Darshit Shah:** Just one clarity, we are doing roughly Rs. 60 crore of R&D expenses in the parent standalone business, so post demerger, how much would then flow to SPL and how much will remain with Suven Life Science out of that?

**Venkat Jasti:** Suven Life Sciences will have 70% of the Rs. 60 crore, 30% goes to the CRAMS.

**Darshit Shah:** And sir, in terms of top-line, how much you said will be roughly around 5% down from what we did last year, from Rs. 650 crore?

**Venkat Jasti:** Yes.

**Darshit Shah:** And similar would be in terms of bottom-line business?

**Venkat Jasti:** No, it will be 10% down.

**Moderator:** Thank you. Next question is from the line of Anshul Sehgal from Kotak Portfolio Management Services. Please go ahead.

**Anshul Sehgal:** Could you just tell us how the cash will be split between the two entities?

**Venkat Jasti:** All the cash will be kept in the main company that is Suven Life Sciences but all the receivables and all those things comes into the Pharmaceuticals.

**Anshul Sehgal:** And when you say that 3 years spent will be available in terms of cash, one should just back calculate that and come to a number of about Rs. 160 to 170 crore, is that right?

**Venkat Jasti:** No, that is Rs. 300 crore because we are also taking this Suven Neurosciences' cost also into this, which will be a wholly own subsidiary of Suven Life Sciences.

**Anshul Sehgal:** And the demerger, I would assume that a lot of people would have asked for this for the last 2 or 3 years. Why is it being decided now? Why this timing?

**Venkat Jasti:** I can tell you because we have enough cash now to pass with Suven, the funding is done by the CRAMS side of the business all these years. Now when we do the demerger, you would have enough cash to run at least for 3 years. That is the motivation. Now that we have Rs. 300 crore of cash on hand which we can pass in this Suven Life Sciences itself that will run for 3 years. In the 3 years, we hope to streamline both the monetization and also getting the strategic partner, whatever you can call it. That is the reason why we are doing this at this time. Before that we didn't have that much cash.

**Anshul Sehgal:** In one of the comments you mentioned that the numbers, they were 70 crores, right?

**Venkat Jasti:** Those are the commercial sales supposed to happen last year is Rs. 120 crore, this year we said about Rs. 80 to 90 crore will happen, so far it happened at only Rs. 38 crore, it will go up to Rs. 70 crore. That is what I meant.

**Anshul Sehgal:** And for the CRAMS business, net of the spent on your Life Sciences business, you would have done over Rs. 180 crore EBITDA this year so far?

**Venkat Jasti:** So far, we have done for three quarter, Rs. 180 crore.

**Moderator:** Thank you. Next question is from the line of Gautam Gupta from NRC. Please go ahead.

**Gautam Gupta:** Just two very small questions. One, do we have a record date yet for the demerger or will that be decided subsequently?

**Venkat Jasti:** The record date will be given by what you complete the NCLT process.

**V Sunder:** Post NCLT process, board will decide the record date.

**Gautam Gupta:** Post the demerger, do we anticipate any related party transactions between SLSL and SPL? Could you give some colour on that?

**Venkat Jasti:** Let me tell you, the Suven Life Sciences has innovative molecules. They will be needing to do the manufacturing of the clinical trial supplies and we will not be having any manufacturing capabilities, so what we do is we will get the work done at the Suven Pharmaceuticals Limited on a payment basis and also when we out-license the molecule if we are lucky in SLSL and we also would like to put a class such that the manufacturing at sale will be from SPL, so there will be synergies that whatever the combined company has the synergies, the same thing will continue in future also because we are the shareholders in both.

**Gautam Gupta:** That is fantastic, that is also good but besides this no royalties?

**Venkat Jasti:** No, SPL will not get into royalties with us (SLSL).

**Gautam Gupta:** We will not be using any of the patents and stuff?

**Venkat Jasti:** Yes, whatever we use labs and we use manufacturing facilities. it will be payment basis and all those things.

**Moderator:** Thank you. Next question is from the line of Ankush Agarwal from Money Life Advisory. Please go ahead.

**Ankush Agarwal:** My first question is like you said that 70% and 30% of R&D would be shared between, like 70% would be done from the holding company and the rest would be done from the new company, right?

**Venkat Jasti:** Yes.

**Ankush Agarwal:** So in that way, my question is that in the future the holding company would have no interest in the new Pharma company, so how would this 30% flow from the new company to the holding company?

**Venkat Jasti:** I think you didn't understand. What we are spending today is what we are writing off on the R&D expenses, 70% is incurred in the drug discovery business, 30% of which is mainly the human cost is incurred in the CRAMS side of the business that will remain same post demerger that means now we are writing off 100% in the CRAMS business, now only you will be writing off only 30% because the bottom-line will go up automatically.

**Moderator:** Thank you. Next question is from the line of Mr. BT Vaidyanathan, Individual Investor. Please go ahead.

**BT Vaidyanathan:** My first thing, can you convey congratulations to Padmaja ma'am and to you for selecting her as woman Director. I had the pleasure of talking to her about a year back. I was asking about you, when I wanted some clarification and she had happened to pick up the phone and she came across as a very nice person, so congratulation on your selection of her as a woman Director, number one and number two, regarding the share split, if you whole say 100 shares at the moment, how would you manage to split between the two companies, please?

**Venkat Jasti:** Post the demerger, every shareholder of Suven Life Sciences will receive one share of Suven Pharmaceuticals equally.

**BT Vaidyanathan:** So it will be like the same, 50 shares of Suven Pharmaceuticals and 50 shares of Suven Life Sciences, like that will it be or it will be one each?

**Venkat Jasti:** Whatever, suppose if you are holding 50 shares, you will be automatically allotted 50 shares, SPL. It says mirror demerger that means everybody gets each one share each.

**V Sunder:** It is not dividing the share capital into two actually. It is like you will be getting one additional share. That is what the share is in SPL actually. All the shareholders, suppose Vaidyanathan is holding 1 lakh shares on record date, the same 1 lakh share will be credited again in SPL.

**Venkat Jasti:** But the price discovery will happen post listing and all.

**BT Vaidyanathan:** And second thing, you were keen on presenting the result in the Alzheimer's conference in July as you said. For the investors like us, will that be the time for us also to know or will you be announcing it to us earlier whether and then going around through the conference. What is generally the scheme of things basically as it happens?

**Venkat Jasti:** First of all, we have to get the data to us, but that is our hope because in this business, nothing is guaranteed until we get the data in our hands. When we get the data, first time it will be presented to whole world. It is not that I am going to call somebody and say that but when I am presenting the data in the conference, it is automatically put it on website and everything, everybody knows, whether it is a success or failure or whatever. There is nothing like we will have something kept in mind and then we will wait for the conference. Meeting the deadline itself is a tough task for us, so we have asked our CRO to expedite the post lock the clean up and giving the data. So we hope, as I said we are keeping our fingers crossed as the data will come out, but there is positive and negative for us to announce in this, so this is a wider audience where the actual molecule will have a value if it is positive.

**Moderator:** Thank you very much. Next question is from C Srihari from PCS Securities. Please go ahead.

**C Srihari:** Just one clarification. When you say that the apportionment for research expenditure is 70:30?

**Venkat Jasti:** As I said, it is not apportionment, this is I am giving you a rough split that is what will happen tomorrow. It is not an apportionment, it is actual.

**C Srihari:** 70:30 is based on the standalone numbers or the console numbers.

**Management:** Standalone.

**C Srihari:** Effectively, standalone was around shade under Rs. 60 crore in FY18.

**Venkat Jasti:** 42 crore roughly goes to discovery and 18 crore goes to the CRAMS.

**C Srihari:** You are saying of that 58.5 crore?

**V Sunder:** Approximately if you really say FY18 kind of strategy, at the time actually you can see that out of 58 may be possibly about 17 to 18 crore would have been possible for CRAMS business and then balance 40 is for discovery operations. 70:30 is the kind of split we are giving at this point of time. The actual expenditure will be there in SPL at that point of time whatever is going to be there, it will be there.

**Moderator:** Thank you. Next question is from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.

**Rashmi Sancheti:** Sir, again on clarification on the other expenses as well as the staff cost excluding your R&D, will the same proportion apply on that also, 70:30 or?

**Venkat Jasti:** I think you are going through just excel sheet calculations. As I said it is the rough estimate, the costs that are incurred for either discovery(SLSL) or SPL, the other expenses will not go into this, this is not R&D expenses. That goes into the manufacturing base or whatever that base. In CRAMS, more or less is a human cost of the R&D scientist is the only one that will come into the picture. Let me give you a clarification. Today, I am writing off say Rs.60 crore I am spending on the total R&D, I am going to write off tomorrow onwards only Rs.18 crore under CRAMS and when it comes to consolidation, whatever are spending in the Neurosciences will not also get affected here, so it is an improvement for the CRAMS, there is no consolidation will be there since it is a straight, it will be EPS accretive.

**Rashmi Sancheti:** And sir on asset side, on the fixed assets and everything?

**Venkat Jasti:** All the fixed assets except very small portion of the assets, all the immovable properties, everything goes to the CRAMS. Only the IP and few of the equipment and the cash goes to SLSL.

**Moderator:** Thank you. Next question is from the line of Sanjay Nalvaya, Individual Investor. Please go ahead.

**Sanjay Nalvaya:** Sir as an individual investor I have a question from that why does our net profit margin remain constant? It was 28.33% was in Quarter 2 of 2017-18, now it has become 18.67% in Q2 so what are the reasons that is the question one. Second question is Phase-2 we were told that Suven-502 will succeed, how much time it will take to commercial in Phase-3. And third question I have is the royalty we are getting from Taro, how much royalty we are going to get from Taro?

**Venkat Jasti:** The 502 Phase-3 will take roughly 2-1/2 to 3 years and with respect to the Taro as you could see as it is becoming an old product and the royalties are coming down and this year, we have received only Rs. 5.68 crore compared to 3 quarters compared to last year about Rs. 8 crore, so next year, it is likely to go down further as fast as the values also will come down. Margin, it keeps changing depending on the product mix and as I was telling you in the initial stage itself, this year we do not have the commercial quantity repeat business is not there which is the highest margins and not many early stage molecules we are doing, so the cost will be more in the early stage molecules compared to the later stage molecules. That is the reason why you will see, but by the year end, you will see that it will come back to 20% net profit.

**Moderator:** Thank you very much. Next question is from the line of BT Vaidyanathan, Individual Investor. Please go ahead.'

**BT Vaidyanathan:** Sir, my final question which I wanted to just it came as a thought. In the US, technically can we have an IPO for that Suven Neurosciences which is registered in the US?

**Venkat Jasti:** Yes, 100%.

**BT Vaidyanathan:** Why it just crossed my mind is the risk factor out there for this new innovative chemicals which especially Axovant build their whole company based on one chemical which they purchased and that was also for Alzheimer's, though it is right now in doldrums, but it went I think if not anything about \$2 billion company at its very peak of capitalization. Can we do something like this at 502? Can we have an IPO out there? Because people are ready to take a chance, may be not here, but out there they are ready to take a chance; much more than people from here because they don't understand. Here the people may not be understanding the concept, the type of business which we run because research and innovation is very new out here and especially in the Pharma field, but out there people know the risks associated with it and they are also ready to return the rewards later. So is there anything which we can, it is just a loose thing to be tried, but I am not very sure how to go about it but can that be considered?

**Venkat Jasti:** The whole purpose of keeping the IP in USA as a separate entity is itself for that purpose. One is to get the strategic investor being sitting there rather than sitting in India. Secondly, it is necessary to go to IPO and only thing is you cannot go to an IPO at this time, you are giving an example of Axovant. The Axovant molecule is post Phase-2 that means after the proof of concept is done by the GSK even though the data is not good that is why they could capitalize on it. Same way, if the 502 is positive, then either you go to out-licensing deal and if the deal is not good, you can go to the IPO business also and at that time the valuation is much better and follow on compound also valued at the same time, but not before the proof of concept. So your question, yes or no, yes you can go to the IPO, if no, not now.

**BT Vaidyanathan:** And I think it is a brilliant move, now come to think about it because we have one more option, the split is like good because we have one more option, in case we do not find a strategic investor or just not very lucrative for us.

**Moderator:** Thank you. Next question is from the line of Afzal Mohammad, Individual Investor. Please go ahead.

**Afzal Mohammad:** Sir, what are the primary and secondary endpoints for the 502 trial?

**Venkat Jasti:** That is called ADAS-cog is the main endpoint and there are some 10 secondary endpoints. They are listed in our clinical trial and we can see in our website also, our protocol.

**Afzal Mohammad:** And have you been approved by any pharma companies for discussions on 502?

**Venkat Jasti:** It is going on for the last 5 years, everybody is interested, but nobody wants to align at this time until it completes Phase-2, but there are lot of interest.

**Afzal Mohammad:** At least you are getting some interest. Sir, what is the total equity on net worth of SLSL post demerger, an estimate?

**Venkat Jasti:** It will be around Rs. 440 crore.

**Afzal Mohammad:** So if I take a long-term view, SLSL will primarily become a biotech pursuing innovation NCE, correct?

**Venkat Jasti:** Yes.

**Afzal Mohammad:** And SPL will become CRAMS. Do you try to tweak the business model of SPL to similar to that and do you plan to scale up the API manufacturing of SPL?

**Venkat Jasti:** We are already scaling up, we are spending Rs. 250 crore within next 18 months, I mean putting more resources and more in infrastructure. Unlike generics, we don't put up capacity just for the sake of running out the huge volumes. The success of the molecules comes from the success of the innovators at clinical trial, so proactively we are building capacities which will be operational after 2020.

**Afzal Mohammad:** And do you plan to tweak the business model similar to that of Divis post demerger, the business model of SPL?

**Venkat Jasti:** Like who?

**Afzal Mohammad:** Similar to Divis.

**Venkat Jasti:** We are not in API, so we are not in generic APIs, we are into the innovators, right now, no that is not the intent.

**Moderator:** Thank you very much. Ladies and gentlemen that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

**Venkat Jasti:** Thank you one and all for tuning in. As we said, this year is going to be a flattish year, little bit downtrend at the end of the year, but the next year looks very strong, whatever the things which we are supposed to have this year has postponed to the next year and also there is an indication from the customer that more molecules can go into the next phase of the activity and the traction is looking better, so as of now CRAMS is looking good. With respect to the 502, as I said, we are keeping our fingers crossed for the results which sometime in July timeframe and we are going to start our second molecule proof of concept in the month of April and the third thing I have mentioned to unlock the value and to have the right alignment of the people with right risk profile in the future for our requirement, even though it is not necessary based on interactions we had various funds and the analysts over the period of last 3 years; having enough cash at this time, we thought of doing a demerger, putting the CRAMS into a separate entity called Suven Pharmaceutical Limited, keeping all the cash in the Suven Life Sciences which will (take care of) for the next 3 years. This will give you better margins in the CRAMS automatically because the expenses in the drug discovery is taken off the balance sheet, so it is going to have much better EPS accretion and also there will not be any kind of consolidation because there is no consolidation right now.. So all in all, I think this will give you a much better

valuation compared to our previous we are reporting very less and this aberration will be taken care of and all in all, I think the value unlocking will take place for all the people that are involved and I thank you for all your questions and understanding and hope to talk to you in the next quarter. Thank you.

**Moderator:**

Thank you very much. Ladies and gentlemen, on behalf of Suven Life Sciences, we conclude today's conference. Thank you all for joining us. You may disconnect your lines now.

***Please note:***

*We have edited the language, without changing much of the content, wherever appropriate, to bring better clarity*