



## Suven Life Sciences Limited

### Q2 FY15 Earnings Conference Call Transcript

#### November 17, 2014

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- Moderator** Ladies and gentlemen, good day and welcome to the Q2 FY15 Earnings Conference Call of Suven Life Sciences Limited. As a reminder, all participant lines will be in the listen only mode. 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** Thank you. Good afternoon and thank you all for joining us on this call to discuss the financial results of Suven Life Sciences for the quarter at half year ended September 30th, 2014. We have with us Mr. Venkat Jasti – the Chairman and CEO and Mr. Venkatraman Sunder – VP, Corporate Affairs.
- 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 already been e-mailed to you earlier. I now invite Mr. Jasti to share some perspective of the performance over the quarter and his outlook for the year ahead. Sir, over to you.
- Venkat Jasti:** Thank you Gavin and thanks to all the listeners logged in for this earnings call. As you know our results were out on Friday and as per our guidance it is on similar lines as we had predicted, as we do not have any prelaunch supplies this time around. But with positive surplus in the specialty chemicals which has given us a little bit more revenue. And on the NCE side we have 502 which is in the final stages of going into Phase IIA preparation and the new molecule 3031 has entered into Phase I one last week. I think two more molecules will be entering IND next year. I would like to start the conversation for your questions, queries you may have on results and the future activities of Suven.
- Moderator** Thank you very much sir. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Purvi Shah from Dalal Broacha. Please go ahead.
- Purvi Shah:** Sir basically wanted to know about the three molecules which were in prelaunch. Did we get any feedback from the innovator saying, how well these products are being accepted and when do we see a likely reorder for the same?
- Venkat Jasti:** Two of the three products have been launched recently and the sales estimates are very rudimentary at this time. I do not think we have any indications as of today when the repeat order is going to come. I think it will only be after January i.e., after the holidays, by that time they will have some kind of an idea how much sales would have gone through, I do not think we can get any feedback from them before that.

- Purvi Shah:** Okay, so basically Q4 is when we can expect something on that side as to how the products are faring and what kind of upside?
- Venkat Jasti:** That is what our estimate is because they have just launched, they will give us some guidance by January end I guess on how the products are performing.
- Purvi Shah:** Okay. Thank you and all the best.
- Moderator** Thank you. The next question is from the line of Ashish Thakkar from Asian Market Securities. Please go ahead.
- Ashish Thakkar:** Sir just a follow up on the earlier question. So are we saying that quarter four FY15 would be the quarter where we can get an opportunity to supply the intermediates?
- Venkat Jasti:** I cannot give any guarantee on that, unless the intimation comes from our innovators that they require the repeat order. See the thing is they have taken one and a half year requirement, so by the time they launch and it goes into market penetration and the repeat order is received. I think the earliest may be in January or February time frame not before that.
- Ashish Thakkar:** Okay. So to that extent the worst case assumption of we getting an opportunity to supply them would that be a quarter one FY16 or you feel that it could extend beyond that?
- Venkat Jasti:** I do not want to predict anything without knowing anything. So I will reserve this until I hear from them. In this business there is nothing guaranteed until it comes in, but we assume that it will come, but which quarter I cannot tell at this time.
- Ashish Thakkar:** Okay. Got it sir and secondly any status on the QIP.
- Venkat Jasti:** As we have been waiting not to pursue vigorously until the results are known, so that everybody knows what is happening with us, so that is why we will concentrate on that and at an appropriate time we will look into it.
- Ashish Thakkar:** But there is still a possibility that you might not go for an QIP, is that understanding right?
- Venkat Jasti:** No, that is not the understanding at all. If there is that understanding, I would not have taken the permission from the EGM right. I have taken the permission from the EGM, we have not said no to anything but we want the results to come first and then only we will go after this.
- Ashish Thakkar:** Okay, sir another question would be on our CRAMS side so last year second quarter FY14 what was the sales from the one time supplies of the intermediate the CRAMS part.
- Venkat Jasti:** Second quarter itself is INR 60 crore which is now there in this quarter.
- Ashish Thakkar:** Okay. So if we adjust that INR 60 crore number then our current quarter performance looks still better?
- Venkat Jasti:** Yes.
- Ashish Thakkar:** So this quarter we did around 27% at the EBITDA level margins, so are we saying that 27% at base business is sustainable margins going ahead?

- Venkat Jasti:** Yes.
- Ashish Thakkar:** Okay, that is encouraging. Sir second question would be on the tax side, since we have done around 24% provision for this quarter so the full year guidance still remains at 28% or we would like to revise it.
- Venkat Jasti:** I think it remains the same.
- Ashish Thakkar:** Sir my last question would be on the CAPEX side like we were planning for INR 105 crore of CAPEX for FY15 so how much have we spent till date?
- Venkat Jasti:** As of now we have spent INR 71.5 crore out of this INR 105 crore.
- Ashish Thakkar:** Okay, so the rest we are going to spend in the second half.
- Venkat Jasti:** Yes, it will be spent in the next five to six months before March.
- Ashish Thakkar:** Okay, thank you sir and all the best.
- Moderator** Thank you. The next question is from the line of Ashok Shah from M capital. Please go ahead.
- Ashok Shah:** My question was how much have we recorded from the specialty chemicals business in this quarter?
- Venkat Jasti:** This time I think we have a very positive surprise because the requirement has come even before we set up our facility at the Vizag plant to meet the requirements. As a matter of fact the October quantity also has been taken in September itself so the specialty has given INR 69 crore of revenue this quarter.
- Ashok Shah:** Sir the October quantities have gone in the month of September so can we say that the momentum will still continue for the second half as well?
- VenkatJasti:** It is likely to continue so we have already started with the permission from the innovator to do some steps outside our company to augment these supplies to them so it may actually better than last year.
- Ashok Shah:** That is all from my side thank you sir.
- Moderator** Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.
- Chirag Dagli:** Sir the second quarter of this year has not seen any sales from those prelaunch products?
- VenkatJasti:** None.
- Chirag Dagli:** Okay, and sir I was looking at your segmental disclosures so there services part has seen a substantial jump both in sales and profitability if you can indicate what is going on there?
- Venkat Jasti:** Which one?
- Chirag Dagli:** Services there is a segmental revenue mix.
- Venkat Jasti:** Services includes the royalty's on the Malathionlotion.

- Chirag Dagli:** So this is the quarterly run rate or this is like once in a year that you will receive?
- Venkat Jasti:** Quarterly run rate.
- Chirag Dagli:** So this will now continue you are saying sir? INR 7.5 crore of quarterly EBIT for the services piece will now continue on a quarterly basis? Sir we have INR 9.7 crore of sales and then on that we have an EBIT of INR 7.5 crore.
- Venkatraman Sunder:** It has got a Malathion lotion royalty which is a part of the service that is what has been clubbed in this.
- Chirag Dagli:** So this is the first time it has come is it?
- Venkatraman Sunder:** Yes, it has come for the first time, you consider for semi-annual period as in for six months, then when you really run for another six months is when we will know how much is going to be the next royalty stream.
- Chirag Dagli:** Okay. So this comes once in a six months to this quantum.
- Venkatraman Sunder:** No, it need not be. It depends on the off take of quantity and then the sale of the quantity by the innovator.
- Venkat Jasti:** It is also seasonal. If it's summer it will sell more.
- Chirag Dagli:** Okay.
- Venkatraman Sunder:** So that is the reason, because it will be very difficult to predict at this point of time whether it is going to be quarterly run rate. This is the first time it has been taken on, so we have to wait for couple of seasons before we say that whether it is going to be a specific way of moment that we will be watching.
- Chirag Dagli:** What is the quantum sir of this which is included in this quarter?
- VenkatJasti:** INR 4.85 crore
- Moderator** Thank you. The next question is from the line of Ranvir Singh from Sharekhan. Please go ahead.
- Ranvir Singh:** This is again on the royalty part, this is INR 4.85 crore I think earlier you indicated USD 2 to 2.5 million royalty, so should we assume that part of it would be coming in second half?
- Venkat Jasti:** Yes.
- Ranvir Singh:** And I have joined late, so could not hear if you have already explained that going forward the repeat orders will be likely to come in first quarter of FY16 or are we giving any timeline?
- VenkatJasti:** We have not received any intimation as of now and out of three, two has been launched very recently and sales are not yet fully known. By the time January is over I think the fourth quarter for the European customers we will have some kind of an idea what the sales are, how the market is taking the products and hopefully by that time we will have some kind of a communication from our innovators when the next requirement will be.
- Ranvir Singh:** Okay. Likewise you have given guidance for CRAMS business for FY15, can you give some indication for the services business also?

- Venkat Jasti:** Services are growing as usual not much to talk about, because this is not a volume based business because it is value based business that is why you see the better EBITDA margins as Mr.Chirag was telling and also added to that services we have also the Malathionlotion royalty which is included in Services.
- Ranvir Singh:** Okay. Can you give some indications what is the market size of Malathion and what kind of Royalty.
- Venkat Jasti:** Whatever the market size, it is not what we are going to get, we hope to get \$2 million finally at the end of year to the bottom line.
- Ranvir Singh:** Okay. And for Vizag facility when we are expecting it to commence?
- Venkat Jasti:** I think trial runs will start in March next year and April onwards we should start the production that is the target as of now.
- Ranvir Singh:** Okay, next year in April 2015 we will see production.
- Venkat Jasti:** Yes, that is right.
- Ranvir Singh:** Okay and sir for repeat orders what I believe there may be multiple supplier for the same product so, whether we have some assurance from the client side because we have developed it, so we are sure that we will be getting some quantities?
- Venkat Jasti:** No. But both of them have not developed it, two of us are there, one from Europe and one from India, then both of us will get the opportunity to serve, I think that is the way it works.
- Ranvir Singh:** And that sale was only or US or this was for US and Europe?
- Venkat Jasti:** Two customers are Europe and one customer is US.
- Moderator** Thank you. The next question is from the line of P. Shrihari from PCS Securities. Please go ahead.
- P. Shrihari:** If I get it right, of the INR 130 crore revenue from CRAMS business INR 69 crore was from the supply of specialty chemicals this quarter, right?
- Venkat Jasti:** That is right.
- P. Shrihari:** And correspondingly out of INR 147.5 crore INR 60 crore was specialty chemicals last year?
- Venkat Jasti:** Last year INR 60 crore was the prelaunch supplies which were not there this quarter. Last year CRAMS is INR 62.5 crore, this quarter is INR 70.8 crore. Last year specialty chemicals was INR 29 crore this time it is INR 69 crore. Last time prelaunch was INR 60 crore this year nothing.
- P. Shrihari:** Okay, so can you please tell me what is the base growth, net of specialty chemicals and this onetime prelaunch supply?
- Venkat Jasti:** For the half year it is 32% in the CRAMS and the specialty chemicals is 100%.
- Moderator** Thank you. The next question is from the line of Ashish Thakkar from Asian Market Securities. Please go ahead.

- Ashish Thakkar:** Sir of the two molecules which have been launched by the innovator partner, I believe that rheumatoid arthritis this is for the US and the European, the two other molecules with the European guy is depression and diabetes.
- Venkat Jasti:** Yes.
- Ashish Thakkar:** So the US one the RE is out and from the depression and the diabetes space which one is there in the market now?
- Venkat Jasti:** The diabetes.
- Ashish Thakkar:** Okay. Sir could you give us an idea about the collective addressable market size from the three therapies.
- VenkatJasti:** Arthritis drug has various indications including psoriatic arthritis and psoriasis put together is close to \$1.5 billion addressable market. The other two molecules are in the \$400 million each.
- Ashish Thakkar:** \$400 million each?
- Venkat Jasti:** Right.
- Moderator** Thank you. As there are no further question from the participants. I now hand the conference over to the management for their closing comments.
- Venkat Jasti:** Thank you CDR for providing this opportunity and thanks all the participants for asking the questions and hopefully if anything is not answered, you can email it to us so that we can answer back to you and thanks again for tuning in. Thank you.
- Moderator** Thank you very much members of the management. Ladies and gentlemen on behalf of Suven Life Sciences that concludes this conference. Thank you for joining and you may now disconnect your lines.