



Suven Life Sciences Limited Q3&9MFY16Earnings Conference Call Transcript February 15, 2016

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Suven Life Sciences Limited Q3 & 9 Months FY16 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. Ravindra Basu. Thank you and over to you sir.

Rabindra Basu: Thank you. Good Afternoon and Thank you all for joining us on this call to discuss the Financial Results of Suven Life Sciences Limited for the quarter and nine months ended December 31st 2015.

We have with us Mr. Venkat Jasti the Chairman and CEO; Mr. Venkatraman Sunder – VP, Corporate Affairs.

Before we begin, I would like to state that some of the statements made in today's discussion maybe forward-looking in nature and may involve risks and uncertainties. Documents relating to the Company's Financial Performance have already been mailed to you.

I now invite Mr. Jasti to share some Perspective on the Performance of the Quarter and Nine Months and his Outlook for the Year ahead. Over to you, sir.

Venkat Jasti: Thank you, Rabindra, and good afternoon to everyone. As you can see from our press release and the data which we have given on the results, the top line and the bottom line is down. Even though I said this is a status quo year, looks like maybe 8-9% less than what we have expected the whole year, looks like based on the existing orders. But, the fourth quarter it is based on existing orders, it looks better. Third quarter to fourth quarter there will be a growth to the tune of around 20% to 25%. So that will fill some of the gaps. This whole quantum of business is down because mainly the mix of projects which we have done in this quarter and during the year. The Phase-1 compounds we have done more and that is why you see lower volume both on the profit and the top line. Two projects which were in Phase-2, have stopped the progression and because they are not going forward in Phase-3, it also gave a little bit less optimistic scenario. Things are moving well with the existing orders. But all in all, it will be 8-9% less when compared to last year for the whole year.

As far as the Innovation is concerned, SUVN-502 has started the Phase-2 Clinical Trial in USA and after the holidays now the speed has picked up in the enrolment of doctors and the patients and things are moving well. With respect to the 3031, I

have mentioned to you last time itself that we have finished the Phase-1 study in USA, now it is going for Phase-2 enabling toxicology studies which will take roughly 1-year plus. Third Compound 4010 is undergoing Phase-1 in USA. It is in multiple ascending dose(MAD) studies and we expect this to finish from June to July timeframe. SUVN-911 for Depression is in the process of filing for the Phase-1 clinical trial in USA.

So, with this during the year we will have four clinical compounds and one in Phase-2, one getting into Phase-2 and one finishing Phase-1 and one getting into Phase-1. This is in a nutshell about this quarter.

I now take questions from you.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We have a first question from the line of Sriram Rathi from Anand Rathi Securities.

Sriram Rathi: Two questions; one is basically can you share the number of compounds in Phase-1, Phase-2, Phase-3 now?

Venkat Jasti: We used to have 58 compounds in Phase-1, it has moved up to 61 compounds and we used to have 54 compounds in Phase-2. I said two have stopped progressions, so it is now 52, one Phase-3 compound, still three pre-launch quantities which are already launched, they are still there, so altogether it is 117.

Sriram Rathi: Any progression on the Phase-3 compound? I believe it has been there for the past 2-years now. So, basically has there been any additional supply for that compound which is in Phase-3, any status that you can share with us?

Venkat Jasti: We have not received any status report on that and no threshold has been given on that compound. I think maybe it takes another quarter or so before we can see any movement on that compound. But the phase where the trial is going on well, it was updated and we expect the readout sometime in end of this calendar year if everything goes well.

Sriram Rathi: Basically, the commercial supplies that we were expecting, that should start in Q1 or somewhere around that and can generate around \$15 million of revenue in FY17 on the base case scenario. Do we still maintain the same guidance?

Venkat Jasti: We want to maintain the same guidance-we expected maybe a little bit of that to start in the fourth quarter itself, but we have not received anything, but at the same time, one of the customers asking not the quantity but the lead times for manufacturing that compound. We should be getting that indication or even the purchase order hopefully in the first quarter.

Sriram Rathi: This is for the rheumatoid arthritis product?

Venkat Jasti: This is for the diabetes.

Moderator: Thank you. The next question is from the line of Ranvir Singh. Please go ahead.

Ranvir Singh: For this quarter, the depression in sales is also that to commercial supplies of three products which we are doing there also, we have seen weaker off take or it is only that Phase-1 projects have been higher, that is the only reason?

- Venkat Jasti:** No commercial supplies for repeat orders have started, this is only the regular trends, the mix and match is the difference. If we have more number of compounds we submitted for the Phase-2 then the volume will go up and the bottom-line also goes up. If you supply more number of compounds in the Phase-1, your volume will also be less and the profit also is less. It is nothing to do with the repeat business of the large products. That is what I was just telling earlier, we have not received any new purchase orders and we hope to get some indication for the diabetes compound sometime in the first quarter.
- Ranvir Singh:** Revenue guidance is for base business 8-9% growth?
- Venkat Jasti:** Yes, this is compared to last year it will be 8-9% less.
- Ranvir Singh:** So excluding that one-off we had last year?
- Venkat Jasti:** On the total I am talking about because there is no one-off sale now (this year so far).
- Ranvir Singh:** For SUVN-502, whether we have any discussions with anyone for out licensing related thing?
- Venkat Jasti:** No, not yet. As I said, Central Nervous System disease area, everybody is looking for the proof-of-concept. So, I think maybe sometime, in 2017 end, if everything goes well and our results are great.
- Ranvir Singh:** Same is for other molecules also?
- Venkat Jasti:** Yes, other molecules also there are no discussions are going on.
- Moderator:** Thank you. The next question is from the line of C Srihari from PS Securities. Please go ahead.
- C Srihari:** Two questions basically; #1, one of your Phase-2 candidates have progressed to Phase-3. So can you give some color on that? Secondly, for SUVN-502 what would be the competitive position vis-à-vis existing molecules and molecules which are currently in Phase-3?
- Venkat Jasti:** Nothing has moved from Phase-2 to Phase-3 since last quarter, actually only one molecule is in the Phase-3 and as earlier gentleman was asking, we have not received any orders for that and the rollout will be sometime in the end of the year, then only any prelaunch quantities or anything one can expect. As far as the SUVN-502 is concerned, we are in a very good competitive advantage. The reason is there are good compounds; except that they are ahead of us because they are in Phase-3 studies; the competitive edge we have against them is our molecule is a pure compound as we are telling all the time and has no side effects and the margin of safety is very high. The second thing is the other two compounds have some problem with sub-sectors, they are not pure compounds and also the clinical trial protocol, nowadays in USA which is the biggest market, most of the people take combination sub-medications like Pfizer's Donepezil and Forrester Memantine as a combination. So 80% of the patients are on that combination; whereas the other two molecules which are ahead of us in clinical trials that is the GSK Axovant molecule which is going through Phase-3 and also Lundbeck Otsuka molecule also going Phase-3 cannot go on top of these two drugs combination, they can go on top of only one drug that is the Donepezil, whereas SUVN-502 can go on top of both these drugs where 50% of the patients are there and it also has the synergistic effect. So that is the biggest difference. Except the time difference, I

think we are in a much better shape, we are one of the three you can say in the top because we are a third-party in the line and if they are successful I hope they are, that way the validation will take place and will be there following year and that will give us not the first-in-class drug but it will be a best-in-class drug. That is the kind of enthusiasm we have.

- C Srihari:** What is the kind of timeline you would be sharing for 502?
- Venkat Jasti:** The results will be because this is a double blind study, it will be sometime in the September-October timeframe next year
- C Srihari:** The one which has entered in Phase-3, can you give some idea about that particular molecule?
- Venkat Jasti:** That is GSK molecule. Maybe everybody knows about it. This GSK molecule has gone 4x the Phase-2 clinical trial and even though it has proven validated in the proof-of-concept, but GSK thought it is not good to go for a long-term study because it has a dose limiting toxicity. They kept it aside, but one company called by Axovant Life Sciences bought this compound for 5 million and repackaged it in such a way, because there is a dearth of molecules in this space, they went public last year in June, they raised \$367 million with \$2 billion market cap. So the potential is very high and they repurposed it. But as I was telling you, compared to that molecule our molecule is much better because of two reasons – one, they have files 2A liability in addition to the 5HT6 which is the main compound. That has a long-term effect. The second one is the protocol. They can go only on top of the Donepezil whereas our molecule can go on top of the Donepezil and Memantine. So this is the competitive edge.
- C Srihari:** No, sir, I was actually asking about in all you have four molecules in Phase-4. So I was asking about the fourth one?
- Venkat Jasti:** No, I think we have said one is Phase-3, 3 pre-launch, which we have supplied, they are already launched now, we are supposed to get repeat orders.
- C Srihari:** Yes, that solitary one which is in Phase-3 now?
- Venkatraman Sunder:** Yes, solitary one which is in Phase-3. The roll-out is likely to happen by end of this year (calendar year), for which we will know whether it is moving, into prelaunch sometime next year.
- C Srihari:** Which therapy is it in?
- Venkat Jasti:** This is cancer.
- C Srihari:** It is an oncological?
- Venkat Jasti:** Yes.
- C Srihari:** Any sub-therapy segment you can mention?
- Venkat Jasti:** No, they are not given out as yet, because they are growing multi studies on oncology.
- Moderator:** Thank you. The next is a follow on question from the line of Ranvir Singh from Systematix. Please go ahead.

- Ranvir Singh:** This is regarding our ANDA filing. Whether we have filed additional ANDA or we continue with that 6 ANDA?
- Venkat Jasti:** No more additions since we have spoken last time, we are continuing in the same line, but we are working on things and it will take time to file those things.
- Ranvir Singh:** Whether we have filed additional DMF?
- Venkat Jasti:** DMF and ANDA goes together for those things and the other DMF or the intermediates goes to the customers' account which we are filing.
- Ranvir Singh:** Can you give update on the Vizag facility, whether we have started ramping up there or will it get ramped up after approvals?
- Venkat Jasti:** No-no, there is nothing to do with the approval. As you know, that is mainly to taken out because we are doing the Specialty Chemical, you remember we used to do the same across multiple locations, so now we have consolidated into one place, that we have built, that is where the activities taking place so that the other capacity will be leased in the mix and match segments for both the other units. Yes, it is going on very well.
- Ranvir Singh:** So one thing which I understand that repeat orders would be catered from this facility, but otherwise also there is a multi-purpose facility, right?
- Venkat Jasti:** No, repeat orders will be catered from the Unit-1 and Unit-2 only, not the Vizag facility, Vizag facility we have to build another unit when the number of compounds goes up in future, not right now.
- Moderator:** Thank you. The next question is from the line of Amit Kadam from LIC Nomura. Please go ahead.
- Amit Kadam:** Can you break this particular Q3 sales into buckets of CRAMS and Specialty Chemicals, etc.?
- Venkat Jasti:** Yes, it is Rs.49 crore CRAMS and also Rs.49 crore in Specialty Chemicals and Contract Technical Services about Rs.14 crore.
- Amit Kadam:** In this Specialty Chemicals, like what would be then outlook on this, maybe like if we look at this particular number, are we hitting that maybe ceiling in this particular business?
- Venkat Jasti:** I think so, because compared to last year it has grown and we are hitting the peak. You will not be seeing growth from this because we started way back at Rs.20 crore to now, already we have done up to Rs.135 crore for three quarters. So it will go up a little bit more next quarter also. So, I think we are hitting the peak, maybe 5% this way or that way. We cannot expect more than that on the Specialty Chemicals.
- Amit Kadam:** So then looking at this FY17 accounting, what will be the annual sales like we can count for from this Specialty Chemicals?
- Venkat Jasti:** 160-175 crore
- Amit Kadam:** So then because we are in the mid of this Q4, that means like now next year for FY17 then we need to bank more on CRAMS as a business to deliver growth for us

leaving apart the three commercialized molecules, so the base business which is the CRAMS for us, in that what will be our outlook, Phase-1 molecules numbers are growing but then how would it translate into some growth figure?

Venkat Jasti: This is our bread and butter all the time. As the time goes by, the molecules in Phase-1 goes into Phase-2, the Phase-2 which are supposed to go into Phase-3. As of now, it looks a little bit better than what the last nine months were. As I said, I can have only up to 6 months maximum visibility. So it is looking much better than the last year. That is why I was telling you this quarter itself we are expecting 20% to 25% growth based on the CRAMS only, not based on the Specialty Chemicals, because Specialty Chemicals in the range it will continue.

Amit Kadam: So if I heard it properly like Q4 there will be like almost 20-25% quarter-on-quarter jump on CRAMS and then it will continue for the Q1 also, that is what the visibility we carry?

Venkat Jasti: Yes, it is up to the first quarter.

Amit Kadam: Sir, on this particular the three commercialized molecules what we have, what are the indications like any qualitative or some quantitative data what we have?

Venkat Jasti: There are three molecules -- One is for depression and the second one is diabetes and the third one is for rheumatoid arthritis; the third one is the biggest, it contributed two-thirds of the volume originally. What happened is that is going on well and sales are also going on well but at the same time what happened is they have taken more quantity than they required, that is what the indications they have given, that is why we did not get the repeat order. Whereas the depression is concerned, I think it has very small volumes, nothing to talk about big. With respect to the Diabetes, I said they already asked us for an indication of what kind of a lead time we have, so based on that we are expecting sometime in the first quarter to get an order. That looks a little bit better than what we have supplied earlier. So, I think things are moving well on that direction.

Moderator: Thank you. The next question is from the line of Sandeep Onkar from SBI Capital Market. Please go ahead.

Sandeep Onkar: Any update on the Vizag facility? What could be the utilization rate that you foresee in the coming quarters?

Venkat Jasti: Vizag facility is on already and we have already supplied the material from there; right now, we are consolidating other capacities into Vizag and we are using around 60% capacity; we are utilizing it only for Specialty Chemicals and by next year we want to move everything from Specialty Chemicals into Vizag facility, with annual sales around Rs.165-180 crore.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor back to the management for closing comments. Over to you, sir.

Venkat Jasti: Thank you, everyone and thanks for tuning in. We could not give you better numbers but that is the way the mix is and looks much better for the next two quarters as I could give only guidance up to that level and we hope to have the success in the other molecules going into the next in line with the customer success, we be able to garner better business. With respect to the innovation, things are moving very well in a rapid pace. All of them are going in a much faster than what we have thought of and hope only the results is the one that can give us

the real benefit and the monetization aspects which will be sometime at the end of the next year (calender year). Talk to you soon. Bye.

Moderator:

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