Suven Life Sciences Limited

Q4FY15 Earnings Conference Call Transcript
May 27, 2015

Moderator: Ladies and Gentlemen, good day and welcome to Suven Life Sciences Limited Q4 FY15 Earnings' Conference Call. As a reminder, all participants' 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, please signal an operator by pressing '*' then '0' on your touch tone telephone. 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 day and thank you all for joining us on this call to discuss the Financial Results of Suven Life Sciences for the quarter at full year ended March 31, 2015. 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 state that some of the statements made in today's discussion may be forward looking in nature and may involve risks and uncertainties. Documents relating to the company's financial performance have already been emailed to you. I now invite Mr. Jasti to share some perspective on the performance over the quarter and his outlook for the year ahead. Sir, over to you.

Venkat Jasti: Thank you Gavin and good afternoon all of you who has joined this earnings call, we have announced our results yesterday for the quarter and full year ending in March 31' 2015. The revenue growth is less by 13% and the PAT is also down by close to 48%, but for the overall year, we maintained the revenue, even though if you remember; last May when we have given the guidance. We said that it will be 10% less in there revenue but luckily we could be able to manage the revenue because somehow in the 1stquarter we have received the repeat business for the launched product and also the growth in the Specialty Chemicals and the CRAMS. But at the same time, we have also given guidance last year about 30% to 33% in terms of the bottom line, but because of maintaining the revenue, we were able to cut down PAT which is only down by 25%. I think as far as the current year is concerned, we have not received any indication when the repeaters are going to happen for the ones which we have supplied in FY13-14, for the three molecules. So based on that, it looks like a consolidation year and if things come in then it will move further. Some will be maintaining the revenue and the bottom line for the year also as same level as last year, but it can be a positive surprise if we can get some repeat business for the molecules for which we have supplied the prelaunch quantities.

As far as the pipeline is concerned, the numbers are the same and the activities are going on very well. The 3031, Phase-1 is inactive mode and undergoing MAD studies, we have selected for 502 a CRO which we have started activity and timelines, planning is underway. 4010 is in the final stage of IND submission which can happen in the next quarter. So the next year will be the 911 IND. I think this is in a nutshell and I will stop here and take the questions from all of you now.

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin the question and answer session. Our first question is from Ashish Thavkar of Asian Market Securities. Please go ahead.

Ashish Thavkar: On this recent quarter performance, we are significantly lower on the topline because of which you know profitability got impacted, so going ahead is it the base quarter that we should consider or what has really happened in this quarter because especially when last quarter we had added 9 more active projects to our CRAMS portfolio, so what is actually changing for us?

Venkat Jasti: See, this 9 more active projects; it is an early stage projects, revenue will not be accruing immediately, even the revenue that accrues is a small amount. So, in the long run it will be positive but after adding a project will not help in any meaning as week now in this 110 CRAMS projects, which we have now, always there will be 40% to 60% of the projects get dropped and equal number of projects get added back. That is why, you see the marginal growth in the absolute numbers but the revenue growth will happen only when it moves from Phase-1 to Phase-2 and especially from Phase-2 to Phase-3. As of this quarter, there is no change in the Phase-3 molecules; that is still one only. So there will not be any accrual. As far as the topline is concerned, yes as I said without having any other growth parameters like last quarter I think it is the same thing, it will continue. As I said, it will be a consolidation year; this year will be barring the positive surprise of getting the repeat business on the pre-launch supplies which we have made.

Ashish Thavkar: Okay, but we did INR 110 crore on the topline this quarter but going ahead what is your gut feeling, like quarter1, quarter2 going ahead will be definitely improving on this run rate or should we consider this as a base?

Venkat Jasti: Yes, more or less this will be the base. We are hoping to expect that 10% to 15% growth can happen but you can take at this range.

Ashish Thavkar: Sir, can we have some data points like what is the revenue from our Specialty product, this quarter?

Venkat Jasti: Yes, the revenue, the Specialty Chemicals remains the same as last quarter which is about INR 27crore and INR 75crore is the revenue from CRAMS. Of course, contract services is around INR 9crore, so that is the mix this quarter.

Ashish Thavkar: And how much was from Taro?

Venkat Jasti: This quarter there is nothing.

Ashish Thavkar: And in like, for our at Phase-2 trials, we said we have already selected a CRO, so when would be the patient enrolment start and when could actually the clinical trials for this program start?

Venkat Jasti: We are preparing ourselves for September for our investigators meeting and can expect first patient in trial by October. We expect to complete the trial by mid 2017.

Ashish Thavkar: So in the mean while, obviously since the trials would get over by July2017, in the mean while are we planning anything12months down the line as and when the trials start, are we planning to extract some data?

Venkat Jasti: No, you cannot extract data; data extraction from double-blind study would be done only post the results which would be some time in March -April of 2017.

AshishThakkar: So my follow up question would be; can we have R&D guidance for the next 2 years?

Venkat Jasti: Regular R&D guidance is going to be around INR 55crore to INR 60crore as we have been mentioning; that is up to Phase-1 for all the existing molecules, but when it comes to the Phase-2 it will be additional upfront which is to the tune of INR 55crore to INR 60crore per year.

AshishThakkar: So in FY16 you are saying INR 55crore to INR 60crore and there on additional INR 50crore, INR 60crore could be there.

Venkat Jasti: Right.

Moderator: Thank you, our next question is from Sudarshan Padmanabhan of Sundaram Mutual Fund. Please go ahead.

SudarshanP: I am just taking from what was actually being discussed earlier, I mean we looked at a very flattish kind of at topline growth, has there been any kind of deferrals in terms of orders which has moved the base from probably 4Q to1Q or so? And second is, if I am actually coming to your raw materials, means there is always going, you know in a CRAMS business, it also depends on the mix that you are going to deliver in this quarter, it is based on orders that you have, I mean would be right to assume that your mix of profitable v/slow margin products was little bit adverse this quarter, which can improve probably going forward?

Venkat Jasti: Yes, naturally. See, if you go quarter on quarter that will be always happening, onetime you will have value added products, one time you will have early stage products, where the margins will be less. And as far as the flattish growth you are concerned, you are thinking only based on the fact of FY13-14, but we had given a guidance of INR 460crore to INR 470crore only but because of the growth in the first 3 quarters, we could achieve the INR 520crore turn over. So based on that you are saying it is flattish but if you see the bottom line, if you dissect it and you could take the values which we have derived on the bottom line compared to the values which we have derived, I think we have pretty good growth. But you cannot take this on a quarter on quarter basis; it has to be taken on year on year basis.

SudarshanP: And Sir, going through your R&D spend, I would assume that a chunk of your spend will start expanding once your SUVN502 goes into P2, but if I am looking at it, your R&D spend has also moved, you know by about 10%, 15% or so. I mean, is there any other additional molecule which is actually eating some of the R&D spend which would probably continue, if you can just break up your R&D spend and kind of give us some flavor as to how much is going to NCE and how much is going towards the normal business?

Venkat Jasti: NCE is80% of the R&D spends, only 20% goes to the other activities, mainly the employee cost, because process R&D expenses are not part of it as it is already in as contract research as regular expenses. Discovery research expenses constitute major portion of R&D and is written off in full every year.

SudarshanP: Sir, just one more thing. Last year you had given us some kind of a guidance, given that it is a CRAMS Company and lot of it is on a B2B kind of a scenario, so it is very difficult for, probably analysts and investors to fathom, what would be your kind of broad guidance for this year in terms of both profitability as well as in terms of sales?

Venkat Jasti: That is what I said, this is a consolidation year and if we maintain the same thing, we will be happy, but if we get some of the repeat business; that will be a bonus for us. As of now, we are giving a guidance same as last year.

Moderator: Thank you, our next question is from Veena Patel of I-wealth Management. Please go ahead.

Veena Patel: Sir I just missed out on the revenue numbers in the Specialty Chemicals because in the first 9 months we have one total revenue of INR 132crore, for Specialty Chemicals, so what was the number for Q4?

Venkat Jasti: INR 27crore.

Veena Patel: Okay, so you have total INR 159crore from Specialty Chemicals.

Venkat Jasti: Yes.

Veena Patel: Now Sir, the production will shift to the Vizag facility from the out licensing facility for Specialty Chemicals, so what kind of a growth can we expecting Specialty Chemicals?

Venkat Jasti: Actually, if you see, the Specialty Chemicals already has a 34% growth, even without the Vizag plant. But we use the capacities from outside and also use the in-house capacities. All this will be consolidated into Vizag plant, we just started the trial run in the Vizag plant. This segment may add5to10%, after that it will be stagnated at this level.

Veena Patel: Okay 5% to 10%?

Venkat Jasti: Yes, I think about USD 30 million will be, right now we have one about USD 26 million. It will be more or less USD 30 million, and remain flattish. I mean, continuous supply for about 5-6years minimum if not more.

Veena Patel: And Sir, there has been a capacity constraint in your Pashamylaram facility, so once the Specialty Chemicals manufacturing shifts to Vizag, some lines will be available for taking more CRAMS projects in the existing Pashamylaram facility.

Venkat Jasti: Yes.

Veena Patel: Okay, so currently we have how many projects in the CRAMS?

Venkat Jasti: 110.

Veena Patel: Can you just give us break-up for Phase-1, Phase-2?

Venkat Jasti: 57 in Phase-1, 52 in Phase-2, 1 in Phase-3.

Veena Patel: Okay, so this would be giving us a 10% to15% kind of a growth in CRAMS business?

Venkat Jasti: Yes, last year it was 99 and gone up by 11projects.

Veena Patel: I just wanted to have an understanding on what kind of EBITDA margins would be there in Specialty Chemicals?

Venkat Jasti: (+20%), up to 25%.

Veena Patel: And for FY15, what was our gross block?

Venkatraman Sunder: INR 278crore.

Veena Patel: Next question is regards to Vizag itself; the budgeted CAPEX was around INR 110crore, out of that in FY14 we capitalized around INR 30crore, so how much was capitalized in FY15 for Vizag?

Venkatraman Sunder: We have not capitalized as such, as the trial runs are going on, may be this year it will be capitalized.

Venkat Jasti: Yes, it will be capitalized.

Veena Patel: So how much would be capitalized in FY16 for that?

Venkat Jasti: Rest of it, it will be around INR 90crore.

Veena Patel: Apart from this, we have the normal CAPEX of around INR 10crore to INR 15crore?

Venkat Jasti: Depends, it can go up; INR 15crore to INR 20crore, INR 25crore also.

Veena Patel: And what will be our gross debt?

Venkatraman Sunder: INR 80crore.

Veena Patel: Because our interest cost have come down, so our cost of borrowing also has come down accordingly?

Venkat Jasti: It has been all FOREX loans.

Veena Patel: Okay, you have repaid. You have repaid the FOREX loans that is what you mentioned?

Venkatraman Sunder: Yes, mainly FOREX loans.

Veena Patel: What would be your average cost of borrowing now going ahead?

Venkat Jasti: It will be around Libor plus 2%.

Moderator: Thank you, our next question is from Ajay Nandanwar of Hornbill Capital. Please go ahead.

Ajay Nandanwar: I want to ask 3 questions; one on your guidance, you are guiding for a flattish revenue, for INR 550 odd crore and a flat margin pre R&D, will that be a fair assessment of the guidance?

Venkat Jasti: See, without having any knowledge of the repeat orders coming in, we are saying that it will be a more or less a flattish year.

Ajay Nandanwar: And the pre-R&D margins would roughly be stable, is that be a fair thing?

Venkat Jasti: Yes.

Ajay Nandanwar: And you are saying that R&D spends will likely double this year compared to last year?

Venkat Jasti: It can be doubled because when we start the Phase-2, then we will know exactly how much we are going to spend. But it will be more than old days because what we have told you is ;(+50) odd crore is for the regular R&D and when this starts and it goes over a period of 2 years, it will be around INR 50 crore to INR 60 crore will be additional expense.

Ajay Nandanwar: On each year or for over a period of 2 year.

Venkat Jasti: Each year.

Ajay Nandanwar: Any plans to change, like would you capitalize all this or just the expense through your P&L?

Venkat Jasti: It will be expense out, there is no difference where we cannot go back and forth.

Ajay Nandanwar: And sir also on the Phase-2 trial, are there any milestones like you know, from now till say March '17, when we expect our Phase-2 to be completed, are there any interim milestones that you could sort of being looking out for?

Venkat Jasti: No milestones is there because this is a trial which we are doing ourselves and it is a double-blind study, you cannot open it until unless the last patient out. Only thing that can happen is; if some people are interested in licensing the molecules during this clinical trial, it is a possibility, but we cannot take it for granted. So there is no milestone, but there are no negotiations going on as far as the out licensing is concerned.

Moderator: Thank you, our next question is from Sai Prabhakar of Karvy Stock Broking. Please go ahead.

Sai Prabhakar: Most of the questions have been answered, just that Malathion I think we did INR10 crore this year.

Venkat Jasti: Yes.

Sai Prabhakar: And what would be the EBIT or any kind of profitability measure on this end Sir?

Venkat Jasti: That is the net profit, royalty.

Sai Prabhakar: Okay, so you are saying most of it would accrue but all of it will accrue at the bottom line is what you are saying.

Venkat Jasti: Yes.

Sai Prabhakar: Okay and this would be the stable run rate going forward as well?

Venkat Jasti: Yes.

Sai Prabhakar: And any other possibility, we were speaking of 2 or 3 more.

VenkatJ asti: As of now no, not this year.

Moderator: Thank you, our next question is from Sriram Rathi of Anand Rathi. Please go ahead.

Sriram Rathi: From Taro, we have received around INR 10 crore for Malathion lotion this year, so basically next year are we going to expect the same amount or there can be some increase or decrease?

Venkat Jasti: Depending on sales, I guess, we are expecting in the same range.

Sriram Rathi: And second was, on the base CRAMS business which you have, on that you are expecting 10% to15% growth, is what you mentioned?

Venkat Jasti: Yes.

Sriram Rathi: And Specialty should be more or less stable this year.

Venkat Jasti: Yes, that is what because already we have reached INR 160 crore turnover.

Sriram Rathi: But since you will be consolidating whole of the Specialty Chemicals operations into Vizag facility now

Venkat Jasti: Yes, we will be consolidating into one place.

Sriram Rathi: So will that lead to any kind of margin expansion for the company because I think lot of automation would be involved

Venkat Jasti: Even then, a lot of expense is there, this being a new facility, the costs are also more.

SriramRathi: Not going forward, let us say, next year or say next to next year?

Venkat Jasti: See the thing is, at the same time, while the price also has to come down a little bit now because it is a long term project, so every year there is some amount we have to give about 5%.

SriramRathi: About 5% price reduction.

Venkat Jasti: So all that will offset.

SriramRathi: Lastly, on the tax rate; we have seen around 28% tax rate for the last 2 years, so now going forward since your R&D expense is expected to go up, though it will be mainly in a broad, but I think the domestic also on the ANDAs and all, you are working. So will we be getting some kind of tax break or it will be remaining at current levels.

Venkat Jasti: No, I do not think so, with tax rates remaining more or less at same level and no change in MAT, we are hoping that our average will be at 28%.

Venkatraman Sunder: Sriram, now basically the clinical research expenses conducted outside will not get the same benefit for R&D expenditure. If you notice, all our Phase 1 studies are also conducted outside India and hence we will not get the same benefit like previous years. That is the reason you will not see the benefit of R&D in giving a kind of reduction in tax this way. The percentage will continue to be more or less same.

Sriram Rathi: Lastly, on the depreciation, because of the change in the accounting policy, the depreciation has already increased now this year, so next year after the capitalization of the Vizag plant, what kind of depreciation amount we are looking at, in FY16 full year?

Venkat Jasti: The current depreciation (+50%) approximately.

Moderator: Thank you, our next question is from Meeta Shetty of Kotak Securities. Please go ahead.

Meeta Shetty: Just wanted to understand a bit more on the raw material, I mean the gross margins front, it has been very lumpy in the last couple of quarters, particularly in the last 2 quarters, there as on is only the shift between, mix between Specialty and CRAMS or is it within CRAMS that has change, significantly?

Venkat Jasti: It is because of the changes of mix in the CRAMS only, because Specialty remains the same more or less, of course, year-on-year there will be a reduction in the pricing by 5%, that also affects a little bit but the mix and match in the CRAMS only gives you the lumpiness. But overall, at the end of the year you will be seeing a kind of normalization.

Meeta Shetty: Secondly, now that FY16, you believe that the revenue front it will be more or less flattish but at the same time, we will see some cost escalations because of R&D as well as the new plant coming on stream, so obviously we might see a slightly lower or dip in margins, but what is your outlook on FY17, on the revenue as well as on the margin front, do you think you will come back to the level of FY15 or do you see, what is your outlook broadly?

Venkat Jasti: Ideally we cannot give you any guidance for the next year, not even knowing what is happening this year in CRAMS, this is unlike any regular stock and sale items, but our hope is with the three molecules that has been launched long time ago, repeat orders will come in and also the CRAMS growth will happen like last year, comparatively there is a 50% growth in the few CRAMS as we could see this year, all these will lead to much better than the current year, in the next year, I mean FY16-17, that is what our expectation is.

Meeta Shetty: And on the repeat orders that you were mentioning, so we are one of the suppliers for that or are we exclusive in at least one or two products?

Venkat Jasti: See, when we have our repeat orders come, we will get some part of it certainly but there is no repeat orders as of now because it is taking time for them to launch in all the territories because they have taken 1.5x of the requirement to start with and also in the new payment policies lately, everything has to go to formulary, in order for them to get the reimbursements, so the take off is not as I said, it will be only the third year, I think we expect may be end of this year or certainly sometime next year as repeat business.

Meeta Shetty: So a part of the repeat orders and the clarity obviously we might not have, but how is the product doing in the market, has it been fairly good as per expectations?

Venkat Jasti: Yes, it was actually much better than what we have expected; otherwise, our intimation to you in last May was only for INR450 crore to INR460 crore because of that growth actually in the CRAMS by 50% overall growth and in the Specialty Chemicals by 34% has put us into this positive territory compared to last year as per the top line is concerned. The bottom line is affected because the one-off is not there and the same time if you take those numbers off and put these things, the growth is much better than what you have specified on the total numbers here if you dissect it.

Meeta Shetty: Okay and lastly, just to clarity on the R&D Expense, so you have mentioned 50-60 on the Phase-1 molecules that you have and additionally 50-60 could come, so can we see an out go of INR 120crore in next 2 or 3 years, is that what you are pointing out to?

Venkat Jasti: Yes, roughly INR 100 crore.

Meeta Shetty: Okay and that will be in the next, say FY17 or is it FY18 kind of a number?

Venkat Jasti: Both years.

Moderator: Thank you, our next question is a follow up from Ajay Nandanwar from Hornbill Capital. Please go ahead.

Ajay Nandanwar: Sir if I see your growth in CRAMS business for last two years, you have achieved 28% and 55%, leaving aside one-time revenue growth for FY14, now you are guiding for flattish revenue for next year, what is the change in, what is being different now than how your historical pipeline has looked leading you to guide a flattish revenue?

Venkat Jasti: See, this Specialty Chemicals more or less remains the same as I said and in terms of the CRAMS, the onetime of INR 45crore which was added in the first quarter of the pre-launch supply will not be there this year. So, more or less as I said 15-20% growth on the CRAMS amounts to the same, so we are giving a guidance of the same numbers.

Ajay Nandanwar: Even if I take out the INR 45crore, so you are looking at INR 475-476crore revenue in FY15 and historically your lowest growth rate has been sort of 28-30%, that would still give you some where around INR (+600) odd crore.

Venkat Jasti: No, The run rate has been good so far, doesn't mean that we can maintain at that increased level. In fact, we have grown more than 50% in CRAMS and we continue to grow in our base business. However, as we are not able to assure repeat business, which if and when comes will be added advantage. Overall, we are giving a guidance of 15% to 20% for our CRAMS business and without the inclusion of repeat order which we got last year for Rs. 45crores, we still hope to maintain the total revenue of the last year. That is why we call it one more flat year, barring some surprises, if any.

Moderator: Thank you, our next question is from Ravi Naredi, he is an Individual Investor. Please go ahead.

Ravi Naredi: Can you tell me, how much the total CAPEX for FY15-16?

Venkat Jasti: FY15-16 will not be more than INR 30crore. That is only normal CAPEX, what you call replacement CAPEX.

Ravi Naredi: Sir we are having INR 286crore cash so what have you planning in your mind for next1, 2 years?

Venkat Jasti: We want to spend that money this year because see INR 200crore out of INR 286 crore is from the QIP and that will go mainly towards the clinical development for the molecules.

Ravi Naredi: When will it happen?

Venkat Jasti: It will be spent in 2 years.

Moderator: Thank you, Ladies and Gentlemen, that was the last question; I now hand the floor back to the management for closing comments, over to you sir.

Venkat Jasti: Thanks everyone for tuning here and as I was mentioning, even though it looks negative and the part of the numbers which we have given, but if you dissect the numbers and actually the growth; both in the terms of CRAMS and all the profitability is much better than compared to the FY13-14 because not having the repeat business on this and we are giving a guidance of consolidation and flattish growth but with any repeat business that comes in, that will add to the top line and the bottom line and this year will be a year where we are going to have our this Phase-2 actually starting because we have already selected and the activities have started for the 502 molecules with a 2017 time frame for the monetization, and finishing all other things by that time, the Phase-1 study, hoping that some kind of an alignment will happen with the global strategic investor. With this, I thank one and all and hope total to you in three months from now.

Moderator: Thank you. Ladies and Gentleman on behalf of Suven Life Sciences Limited that we conclude this conference. Thank you for joining us, you may now disconnect your lines.