# Suven Life Sciences Ltd.

## Conference Call Transcript

## August 16, 2017

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**Moderator**: Good day, ladies and gentlemen, and welcome to the Q1 FY18 Earnings Conference Call of Suven Life Sciences Limited. 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 the conference is being recorded.

I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

**Gavin Desa**: Thank you. Good day, everyone, and thank you for joining us on this call to discuss the financial results for the first quarter of FY18 of Suven Life Sciences. We have with us Mr. Venkat Jasti, the Chairman and CEO; and Mr. Venkatraman Sunder Vice President of Corporate Affairs on the call.

Before we begin, I would like to mention 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 been mailed to you earlier.

I would now like to invite Mr. Jasti to share some perspectives on the performance of the quarter and his outlook for the year ahead. Over to you sir.

**Venkat Jasti**: Thank you. Hello everyone, and thanks for tuning in to our earnings call for our first quarter ending June 2017. Pardon me for my voice because I am a little under weather. And as you could see from the results we have just announced, on a quarter-on-quarter basis revenues are down by 20%, PAT is down by 27%, EBITDA is down, R&D cost has increased.

For every fourth quarter our numbers are bigger, so that's why you see this aberration here. But if you see quarter-on-quarter basis, except for PAT all other numbers have shown a single-digit growth. The downward trend in the PAT is because of the tax expense, as this year we did not have the 200% weighted average deduction.

The growth, again as you know, quarter-on-quarter we cannot have a straight-line growth, which I have said, it is 10% to 15% of the PAT and the same numbers on Specialty Chemicals. So, you have to take that into consideration. But in general, the molecules which have been commercialized, as I was telling you last con-call about Rs. 60 crore to 70 crore we had hoped to achieve. I think we may have little

bit surpass it. First quarter, we have done about close to Rs. 25 crore, Rs. 24.95 crore. I think things are going well on the direction.

With respect to the innovation, as you know, I mean the Phase-II clinical trial, I think we are just past the half-way mark this month in the enrollment. I think things are moving a little bit better, but still we are lagging in time. And since this is based on the exclusion criteria/inclusion criteria, and also the availability of patients is one of the reasons as our CRO informs us. I think this is more dynamic in nature. We have to go and look for the results hopefully in this calendar year 2018 end, looks to me as the way things are going.

During the quarter, we started a fourth molecule into the clinical trial. It is SUVN-911, Phase 1 clinical trial for the major depressive disorder, that is happening in USA. While we are working with our key opinion leaders on the SUVN-G3031, we are trying to ascertain what kind of protocol we have to develop and what diseases we have to attack, for our next Phase 2 clinical trial. As that's going on, while the SUVN-D4010 continues to the developmental of toxicological studies, finalized and done with and that also will go into the Phase 2 mode, with lag in six months time behind SUVN-G3031.

This in a nutshell and I would rather answer your questions. So, the floor is open for questions.

**Moderator**: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.

**Rashmi Sancheti**: Sir, if you can give what was the R&D expenditure for SUVN-502 during the quarter?

**Venkatraman Sunder**: It is USD 1 million.

**Rashmi Sancheti:** US$1 million?

**Venkatraman Sunder:** Yes.

**Rashmi Sancheti:** Okay. And since SUVN-502 progresses bit slow, do you think that it will be completed by mid-CY18 or it will take much more time?

**Venkat Jasti**: No, as I was telling you we are expecting the closure as per the CRO's estimates end of 2018 calendar.

**Rashmi Sancheti**: Okay. End of 2018?

**Venkat Jasti:** Right.

**Rashmi Sancheti**: Okay. So post that, you will be negotiating with the partners in case if the data comes positive?

**Venkat Jasti:** Yes, post that in 2019 you have the data and based on the data, positive or negative, then the negotiations or no negotiation will happen.

**Rashmi Sancheti**: Okay. So you mean to say that the clinical trials will be completed somewhere between the, last patient would get enrolled by say March or April next 2018 and

the results and everything will come by end of 2018 or you are saying that the last patient only will get getting rolled by end of…

**Venkat Jasti:** As I said, it's more of dynamic in nature. It can happen in December or it can happen in January-March 2019 timeframe.

**Rashmi Sancheti**: Okay. And coming to the quarterly results, in your Specialty business how much is coming from the launch quantity from rheumatoid arthritis?

**Venkat Jasti:** That's not specialty chemical,

**Rashmi Sancheti:** Sorry, the CRAMS business, Yes.

**Venkat Jasti:** Yes, Rs. 24.95 crore is the launch quantity.

**Rashmi Sancheti**: Okay. So I think last quarter you had guided launch quantities to be around Rs. 60 crore to Rs. 70 crore coming from one molecule only, that is arthritis. Are we expecting any quantity coming from the diabetic molecule also?

**Venkat Jasti:** No indication as of now.

**Rashmi Sancheti:** Okay. But that is in line with the expectation, right, related to the arthritis?

**Venkat Jasti:** Yes.

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

**Sriram Rathi:** Just actually I missed the initial comments, if you can just provide the revenue break up of this quarter in terms of CRAMS and Specialty Chemicals?

**Venkat Jasti:** Yes. The CRAMS, which include the launch quantity also put together, is Rs. 83.8 crore, the Specialty Chemicals is Rs. 40.33 crore and the Services is Rs. 15.36 crore.

**Sriram Rathi:** Okay. And the commercial supply was around Rs. 24 crore?

**Venkat Jasti:** Rs. 25 crore, Yes.

**Sriram Rathi**: Okay, got it. And sir, secondly on SUVN-502, I mean since beginning, it has become very difficult to get the patients for enrollment and all this what we are facing from the last one and half years. So does it make sense to basically reduce the number of targets patient and go faster on this particular molecule or how should we look at it or we will continue to look for 537 patients.

**Venkat Jasti:** See, you cannot decrease the number of patients midway. We have ascertained kind of the ratios at which we have to do the power calculations they do in the beginning of this study. If you reduce the numbers, then the data will not have statically significant results. You have only one chance to get it right, especially in the proof-of-concept stage. So, it necessarily has to go into the completion of the study with certain number of patients, which we have set out to try on. I think little bit traction has occurred lately. I think things will move but not at the pace which we want.

**Sriram Rathi**: Okay, got it. And sir, in terms of guidance, we remain around 10% to 15%, we maintain that guidance.

**Venkat Jasti:** Yes.

**Sriram Rathi:** And margin should maintain where we are, more or less?

**Venkat Jasti:** Yes.

**Moderator**: Thank you. The next question is from the line of Ranvir Singh from Systematix Shares & Stocks. Please go ahead.

**Ranvir Singh**: Few questions, Specialty Chemicals I just was going through Annual Report, seeing that we are going to add new products which may come in FY19 and FY21. So, can you give more detail which products we are planning and what's the status now?

**Venkat Jasti**: Specialty Chemicals, yes, we are working on couple of molecules and the R&D experiments are going on and validations will be done and hopefully we'll have some success of the customer launching the product into the market. And if that happens, it may not be as big as the existing one. But it will also become an annuity kind of a product post launch. And similarly, we are working on couple of other molecules, which are 3 to 4 years away from getting into the market, if everything goes well in the R&D stages at the innovator level.

**Ranvir Singh**: So we are developing this product or its innovator developing

**Venkat Jasti**: No, it is innovator's product, we are only supplying a part of the molecule.

**Ranvir Singh**: Okay. And so, whether we will need to expand capacity or current capacity would be enough to supply?

**Venkat Jasti**: This space, not necessary, not much, maybe a balancing equipment need to be added, maybe a Rs. 10 crore to 15 crore investment. But only when it becomes a big product then only we will put a separate block, if needed. But right now, it doesn't look like it's required.

**Ranvir Singh**: Okay. Secondly, I also saw that we are working on some ANDAs of our innovator with some partners. So one ANDA we already know, Malathion. And what other ANDA we have been working and when this can be rolled out?

**Venkat Jasti**: Yes, this is a 2019, 2020 timeframe we expect the launches, can take with one or two molecules. We are having three different partners, about 8 to 10 molecules are under development.

**Ranvir Singh:** So all 8 to 10 may come in next two years?

**Venkat Jasti:** No, not in one go. One or two every year.

**Ranvir Singh**: Okay. And so we will be just giving technical services or we will have the capacities

**Venkat Jasti**: We are doing the total development including manufacturing and supply because these are high values, small volume molecules, niche molecules and their job is to market them and bioequivalence will be taken care of by them. This is what we have, the way we share. And it will be all in a profit share basis. It can be anywhere

ranging from 35% to 50:50 depending on the nature of the molecule and difficulty to develop the molecule.

**Ranvir Singh**: So which area this molecule belongs to?

**Venkat Jasti**: There is no therapeutic area. These are the molecules which are becoming generic in due course of time, we are taking those molecules with small volumes with no interest from the big boys . We will be developing the molecule and our partners will be marketing it.

**Ranvir Singh**: So currently do we have a formulation manufacturing facility or we will be setting up one

**Venkat Jasti:** Yes. We have a manufacturing facility used for all the developmental and validation batches and small volumes. And eventually, maybe we will put up another block in a year's time.

**Ranvir Singh**: Okay. And actually in this quarter we have a commercial supply of roughly Rs. 25 crore. So that shows if yearly guidance was Rs. 60 crore, 70 crore. So do you think whether we can exceed the guidance.

**Venkat Jasti:** No, I didn't say the yearly guidance, this year's guidance I gave you and it can exceed or there may be a gap below like a couple of years ago, we don't have anything. So, usually it should exceed but there is no visibility at this time. But for this year, whatever Rs. 60-70 crore, it looks like we are going to cross that, may be little bit more.

**Ranvir Singh**: And in Specialty Chemicals, what could be range?

**Venkat Jasti:** There is not much growth. It is 5% positive or negative at the end of the year. It is a mature product.

**Ranvir Singh:** And for SUVN-502 molecule, I think 100 persons have already finished that trial out of the persons enrolled. So what have been so far progress as far as clinical data points are concerned?

**Venkat Jasti**: We don't know. This is a double-blind study. What you know during the course of the clinical trial is only the negative aspects. If some negative aspects are there, the Drug Safety Monitoring Board will keep watching them and they will give you the guidance whether to go slow or stop or something like that. Luckily for us, there is no serious side effect or adverse events because of the drug. But adverse events will happen because of the age and other ailments they have. Based on the drug, not even a single serious adverse event has occurred. That gives you very good hope as far as safety is concerned because these are the molecules that go into the system, they will be multi-year they have to consume this molecule unlike acute for some other indications. So the safety is of paramount importance. That is only known so far. But as far the efficacy is concerned, that will be known only after the last patient out and the data is unlocked.

**Ranvir Singh:** Okay. And in this quarter, the R&D expenditure vis-à-vis fourth quarter is much lower, so what will be the reason?

**Venkatraman Sunder**: That's the overall R&D funding, our regular R&D.

**Venkat Jasti:** Yes, that is because sometimes it gets carried forward into the next quarter, but overall it is around Rs. 60 crore to 65 crore.

**Moderator**: Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

**Chirag Dagli:** Sir, how much was the Taro royalty for the quarter?

**Venkatraman Sunder:** Rs. 2.73 crore.

**Chirag Dagli**: So this is now stable at this kind of a run rate on a quarterly basis?

**Venkat Jasti:** Yes, that's a standard product as you know. I mean this is age-old product and I think summer it will be more and other months it's less. Because the school starts it will be little bit more, I think next quarter will be more. But as usual, this is the run rate and at about Rs. 12 crore to 13 crore per year.

**Chirag Dagli**: And sir, the corresponding number for the first quarter of FY17 was how much?

**Venkatraman Sunder**: Rs. 3.68 crore.

**Chirag Dagli**: And sir, so the services number that you gave was about Rs. 15 crore while the segmental shows about Rs. 7.7 crore. I'm just trying to think, what am I missing here?

**Venkatraman Sunder**: The Rs. 15.36 crore includes this Rs. 2.73 crore of royalty income. And there are other incomes which are there which may not be directly related to the service income. So the pure service income under the segmental reporting is Rs. 7.72 crore.

**Chirag Dagli**: Sure. And sir, base CRAMS business seems to have declined for the first quarter if I exclude the services and in the royalty and the pre-launch supplies. Is this in line with expectations? Is there a change in trend?

**Venkat Jasti**: I think Chirag, you have to take this with a grain of salt. It can add a quarter-on-quarter increase. Year-on-year increase only we talk about it because next quarter it can be doubled and then again come back.

**Chirag Dagli**: So, this doesn't disturb you essentially, there is no change in trend.

**Venkat Jasti**: No.

**Moderator**: Thank you. The next question is from the line of Harith Ahamed from Spark Capital. Please go ahead.

**Harith Ahamed**: Sir, you alluded to some delays in the recruitment of patients for SUVN-502 Phase-II studies. Can you provide a little bit more color on the exact reasons for this, why there has been a difficulty in recruiting patients for this study?

**Venkat Jasti**: The reason is two-fold. Before there were too many trials happening in the same Alzheimer's space. And even though now the trials have stopped and some trials are over, same patients cannot be taken back into our trial until the washout period of more than six months. So, that's one thing. The other main reason is inclusion/exclusion criteria and the triple combination, which is first in the history of Alzheimer's disease. Now people are taking medications because there is no new drug available since 2003. They are taking the old medications, they are taking more than one medication. That is becoming the standard of care. And on top of that standard of care, our molecule is going. It is enough to have an effect. So

when you take those combination drugs, we prescribe the homogeneity, we prescribe with certain strict guidelines in terms of the milligrams of dosage they have to take, which is not what the practice is happening because we need the homogeneity than the heterogeneity. So the inclusion/exclusion of criteria, this triple combination, is the main reason why it is taking a little more time than normally it is. Plus it is a moderate Alzheimer's disease, not the mild. And the third thing is our numbers; because of the triple combination, our numbers based on the statistics and our calculation is also much higher than any other Phase-II trial in the history of Alzheimer's, which is not more than 400, whereas ours is 537. So a combination of above factors contributes to this slowness in the recruitment.

**Harith Ahamed**: And is there guidance for the R&D spending at a consol levels for this year, FY18?

**Venkat Jasti**: No, as far as the standalone it is about 10 million roughly. And as the consolidation, it keeps moving because the total we need to spend about $25 million on which only $11 million has been spent. So, the fag end of the study more spend will happen because of the data unlocking and analysis but $5 million to $8 million will be in next nine months. $1 million a month roughly can happen.

**Moderator**: Thank you. The next question is from the line of Jeevan Patwa from Candyfloss Advisor. Please go ahead.

**Jeevan Patwa**: I just want to understand, how is the growth on the CRAMS side, so for a long time we are seeing that a number of projects are actually not increasing. So, how do you see the growth on the CRAMS side?

**Venkat Jasti:** The growth in the CRAMS is naturally number of projects also gives you a shot at growth in the CRAMS but at the same time the success of those molecules moving from one space to other space is the main growth trail for us.

**Jeevan Patwa**: But still at the same time, the number of projects should also increase. So we should also get engaged with more and more or maybe the same innovator for more drugs.

**Venkat Jasti**: Yes, but first of all, there is the churning, these numbers don't stay the same. 30 to 40 molecules goes out and 30 to 40 molecules joins in every year. And also if you see globally, the R&D, they have cut down the number of areas they are working with, but they are working with more focus on small numbers. So the numbers may not grow as rapidly as you expect it to grow like the IT company numbers, but whereas the success of the molecule in the clinical trial will only give you the effect. That is why you don't see the number of projects growing that much and also the growth is only 10% to 15%.

**Moderator:** Thank you. The next question is from the line of Cyndrella Carvalho from Dolat Capital. Please go ahead.

**Cyndrella Carvalho**: And sir, congratulation on completing more than half milestone for SUVN-502.

**Venkat Jasti:** Thanks.

**Cyndrella Carvalho:** Sir, just wanted to understand, in terms of our R&D spend, does this quarter include some from the 911 trial that we initiated?

**Venkat Jasti:** Yes.

**Cyndrella Carvalho**: Okay. Any guidance in terms of R&D would go up for this year because of 911 apart from the SUVN-502 earlier guided?

**Venkat Jasti**: I mean it will marginally go up, but SUVN-502 as you know, we have clearly mentioned how much we are supposed to spend. Only 40% has been spent so far, 60% has to be spent, but this gives marginal uptrend in the 911, in addition of another 1.5 million back.

**Cyndrella Carvalho:** Okay. Sir, and in terms of tax, how should we look at it for the year?

**Venkatraman Sunder**: Yes, we don't really give a general guidance, but overall guidance like what happened last year, topline has grown about 10% to 15%, bottom-line also expected on the same line.

**Cyndrella Carvalho:** I'm saying tax, sir,

**Venkat Jasti:** Taxes.

**Venkatraman Sunder:** Taxes will be at full level. You can expect that taxes now are going to be almost like what we are having in this first quarter, which is reaching a full level. It will continue to be there. Till last year, we used to have this 200% weighted deduction that has come down. Henceforth, you will feel that tax will be almost 30% plus.

**Venkat Jasti:** 34 plus.

**Cyndrella Carvalho**: Sir, as we have completed more than half of patient recruitment for SUVN-502, is there any chance that you might close the trial by say, July or August?

**Venkat Jasti:** No, I think based on the slowness of the trial even though it's half done, it took more than two years to get the half done, but we expect the next half to be faster because teething troubles are over and everybody is now fully integrated into the study. So, we are expecting to be closer will be end of next year only, not before that.

**Moderator**: Thank you. The next question is from the line of Harisha Kakkera from B&K Securities. Please go ahead.

**Harisha Kakkera**: Can you please repeat the quarterly revenue breakup?

**Venkatraman Sunder:** Yes. Rs. 83.8 Crore CRAMS which includes Rs. 24.95 of commercial quantity. Specialty Chemicals Rs. 40.33 crore; Contract Technical Services Rs. 15.36 crore.

**Harisha Kakkera** Contract Technical Services?

**Venkatraman Sunder:** Rs. 15.36 crore.

**Harisha Kakkera** Rs. 15.36 crore?

**Venkatraman Sunder:** Yes.

**Moderator**: Thank you. The next question is from the line of Ranvir Singh from Systematix Shares & Stocks. Please go ahead.

**Ranvir Singh**: Sir, just if you could give breakup of the CRAM projects under different phases?

**Venkatraman Sunder:** Yes, Phase-I, 70; Phase-II, 39; Phase-III, 2 and commercial 3.

**Ranvir Singh:** Sorry, Phase-I how much?

**Venkatraman Sunder:** 70.

**Moderator:** Thank you. The next question is from the line of Ankur Jain. He is an individual investor. Please go ahead.

**Ankur Jain**: I can see in Annual Report that there are Phase-II projects that have reduced drastically from 48 from last financial year to 41 this year. And there are 2 in Phase-III. So any updates on projects in Phase-III and can we expect projects in Phase-II to increase this year?

**Venkat Jasti:** We have no indication as of today. But anything can happen. We have only six months visibility. As of now we do not have any visibility. Nobody told us that we need to get prepared for the next phase on these two molecules.

**Ankur Jain**: And what about Phase-III and Phase-III, anything that will move into Phase-III this year?

**Venkat Jasti:** It can, but we don't know yet. But I don't think this year it may happen, calendar especially. But it can happen in the next year.

**Ankur Jain**: Okay. And there is also one molecule that is undergoing Phase-III by Axovant, RVT-101. So, any update on the results of Phase-III, any update on that?

**Venkat Jasti:** It will be announced at the end of September or beginning of October according to the last month Alzheimer's conference they have announced that the baseline results will be announced sometime in the end of September, if not certainly in the quarter of October. [Please note: This info is based on their announcement and we do not vouch for their timing]

**Moderator:** Thank you. The next question is from the line of Vaithyanatha BT, he's an individual investor. Please go ahead.

**Vaithyanatha BT**: Lot of questions which I wanted to ask has been already asked by a few people. So I request your permission to ask something different.

**Venkat Jasti:** Please.

**Vaithyanatha BT** Thank you sir. First thing is SUVN-502, this decision for 537 or 539 patients is taken prior to the commencement of the clinical trials for this one. It is a fixed thing which cannot be changed as per you?

**Venkat Jasti**: Yes. When you make a protocol and apply to the FDA, you will announce what is the number of patients you are going to enroll. So, this is arrived based on some certain calculation, wherein the power calculations are done based on the dropouts, based on the age, based on the therapeutic area and all those stuff. So this number has come up because it has two doses and a placebo, so hence each segment will have 179 patients that makes to 537 patients. So, that will remain the same. And this is done ahead of submitting the application to FDA.

**Vaithyanatha BT:** Sir, this cannot be extended beyond the boundaries of US like the other territories of the US

**Venkat Jasti:** Yes, you can extend it. You can extend but the thing is this is a proof-of-concept study and we want to have the heterogeneity and US is the biggest market for the Alzheimer's and it is difficult for us to manage globally, some of the big companies can do the global management whereas even for USA we have to depend on the CRO, as you know this game is only for the big boys. So hence it is not that we cannot do globally but we chose to do in USA where the biggest market and for the sake of homogeneity.

**Vaithyanatha BT**: Okay. My second question, sir. This particular specialty chemical, are you supplying it to Danisco and is it the D-Mannose or something? And is it for a fixed term, the specialty chemical, is it for a fixed term or a fixed quantity over X period of years or it's like a lifelong thing, like keeps on recurring again and again as per their requirement?

**Venkat Jasti:** First of all, I cannot tell you the name of the product or the customer because of the confidentiality agreements and secondly, it is regular product. It depends on the longevity of the product until a new product comes in, the value goes down. It is based on their requirement. As of now, this will have a good span of life of another four to five years minimum. Around 5% of negative or positive growth, that can happen because this is a mature product.

**Vaithyanatha BT**: Thank you sir. And I think my final question. I see in the environmental clearance which you had filed, total production capacity of active pharma ingredients after Phase-I expansion will be 37.5 tonnes per month from the proposed, existing is 7.5 tonnes and it was proposed at 30.5 tonnes per month. Total production capacity of active pharma ingredients after Phase-II expansion will be 75 tonnes per month from the existing 7.5 tonnes per month plus proposed Phase-I 30 tonnes per month and proposed Phase-II, 37.5 tonnes per month. This data has been obtained from the Andhra Pradesh environmental site. So this 10 times from 7.5 tonnes to 75 tonnes per month, so this huge expansion, which you had already filed for environmental clearance. A) Has it come through; and B), will it be coming through in phases if it is not? And such a huge expansion calls for a lot of investment. I see around Rs. 100 crore investment I think if I'm not mistaken. Has it been completed or is it is the process still going on?

**Venkat Jasti:** Okay. I need to give a little bit background for the Hyderabad cluster pharmaceutical industry. Since 1997, no expansion permission was given. Now that they have started giving the expansion based on the maximum capacity I can manufacture, the site we have taken, this permission and I mean as per the expansion permission and which we had already guided and they will be implementing it as far as the environment of treatment is concerned that will be implemented fully. But if I do this generic based activity, then I need this kind of capacities. But I am not doing the generic based activity, I'm doing the NCE-based activity. The actual volume of our business will not be that much. Ours is a value-based business, not the volume-based business. But for the environmental sake, I need to take the maximum that is allowed which we have applied and got it, which will be implemented in due course of time.

**Vaithyanatha BT**: Okay. So this is like a backup thing, which you have already got maximum from that particular plot of land?

**Venkat Jasti**: Yes, that's right.

**Vaithyanatha BT**: Maximum capacity you have taken it; in case it is required in the future you don't have to take it again.

**Venkat Jasti**: That's right. Exactly.

**Vaithyanatha BT:** So I don't know, but the expenses for this particular, I think we will have to pay a license fee or something for such a big expansion, if in case if it is not utilized I think it's the fixed license fee. Does it come to a quite a bit of sum of money?

**Venkat Jasti:** No, nothing. I think that's based on the construction of the new blocks and the capital employed. It goes with that only. It is a nominal application fee, but is not based on the yearly or it will not be based on the actual because there is no amount we have spent than you need to pay and this is valid. Whenever the expansion takes place based on the actual money we spend, on that only you will pay the fee.

**Vaithyanatha BT**: Sir, this Rs. 100 crore which was supposed to be the money spent, has it been spent in full?

**Venkat Jasti:** Not yet, it's partial, because construction is going on.

**Vaithyanatha BT**: Okay. Do you foresee any surprises for Suven Life in terms of growth in the near future because frankly speaking, I have been a long-term investor, the same quarterly calls which I have been attending for the last 2-3 years and I am a firm believer that I stick on to the Company for life. It is not x couple of years, but of late it has been a little disappointing on many fronts, especially the share price. Do you foresee any surprises in terms of share price or anything which will come up in the near future? Are you allowed to answer this question?

**Venkat Jasti**: Yes, I am allowed to answer this question. The thing is, I don't know how you guys think in terms of the pricing, that it is not my cup of tea. My job is to tell what I'm doing and how it's going. I never promised you anything that it is going to double or triple in terms of the sales, profits and we are doing diligently. And for a couple of years' growth was static, and now the growth in Phase-are starting. And we are seeing 10% to 15% growth. And the NCE pipeline is maturing every year, one more priority is being added. These are all value accretion. And this is for people who have a long-term vision along with a risk taking ability because as I've said, it's the zero to one as far as NCE is concerned. We never promised that it will be a blockbuster but when it does it will be a huge off take .

**Moderator:** Thank you. The next question is a follow-up from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

**Chirag Dagli:** Sir, depreciation for the quarter, it changes meaningfully across quarters. How should we think about this number?

**Venkatraman Sunder:** Yes, it will remain more or less same, there'll be a small addition, maybe you can expect little more than what it was last year. Same for the CAPEX what we are spending.

**Chirag Dagli:** So the only incremental addition to this now is the Vizag Specialty Chemicals, right sir?

**Venkatraman Sunder:** No, that is already capitalized. We have gone for the regular CAPEX additions whatever we are getting this year, that will be added. Vizag is not there much as of now.

**Chirag Dagli:** Sir, what is our CAPEX guidance for FY18, sir?

**Venkat Jasti**: Yes, we are adding roughly Rs.120 crore for the creation of a new block at Pashamylaram, which is a specialty block, which means the OEL4 requirements for

the new chemical entity-based activity, only one block is costing Rs. 120 crore and which will be up and running by the next year.

**Chirag Dagli:** This is all that is there and then there is some maintenance CAPEX also?

**Venkat Jasti:** Yes, that will be able about 10% to 15% of the regular requirement, which is Rs. 20 crore to Rs. 25 crore.

**Chirag Dagli:** Right. Okay, sir. And sir, so there are these two molecules in Phase-III, last time we had indicated that these are in oncology. And correct me if I'm wrong, but so is there any incremental development on this…

**Venkat Jasti:** No visibility. We have not been given any indication.

**Chirag Dagli**: Are these on fast-track, sir, can you share or would you be aware?

**Venkat Jasti:** We don't know, we have no idea.

**Chirag Dagli:** We don't know?

**Venkat Jasti:** Right.

**Moderator**: Thank you. The next question is from the line of Cyndrella Carvalho from Dolat Capital. Please go ahead.

**Cyndrella Carvalho:** Hi, sir; just a clarification on the Specialty Chemicals, on that comment, you said that how many products are under development?

**Venkat Jasti:** Three.

**Cyndrella Carvalho:** Three? And then we would see a likely launch, you guided for FY19, if I heard it correctly?

**Venkat Jasti:** Yes. We cannot say guarantee launch on this business when you are in R&D stage and validation stage.

**Cyndrella Carvalho:** Likely.

**Venkat Jasti:** Yes. Likely can one can be in the 19-20, the other can be 20-21, something like that.

**Cyndrella Carvalho**: Sir, in terms of phase of development, in which phase…

**Venkat Jasti:** There are no phases of development because these are not meant for human consumption. There is no Phase-I trial, Phase-II trial. They have much more stringent requirement as far as the launch aspect is concerned. So, this is completely different. It is not a phase, toxicology is the main thing that contributes to this and the registration is the other one, which takes a long time nowadays when any new thing has to come in. They claim that getting a registration and marketing for pharma is much easier than the agro-chemical products.

**Cyndrella Carvalho:** In terms of any understanding that would help us in terms of how much time does that toxicology and all these study needs?

**Venkatraman Sunder:** It depends and we cannot really quantify the time. Maybe the trials and these kind of toxicology studies may take any where about two to three years. And it may not be as equal as Phase-I, Phase-II, Phase-III studies of the pharma. But then the registrations, what Mr. Jasti was explaining about the registrations, may usually now take little longer time. That is the reason. We will not be able to clearly specify how much time it will take.

**Moderator**: Thank you. The next question is from the line of Arun Nair. He is an individual investor. Please go ahead.

**Arun Nair**: Sir, as a policy do we fully expense out R&D or do we capitalize it partially?

**Venkat Jasti**: We fully expense out R&D since 2005.

**Arun Nair**: Okay. So till, let's assume, December of next year, we would be spending how much for 502? Around USD 25 million to 28 million?

**Venkat Jasti:** Yes.

**Arun Nair**: Okay.

**Venkat Jasti:** Already USD 11 million spent.

**Arun Nair**: Okay. So the total expenditure would be under USD 30 million from way of inception, right, on 502?

**Venkat Jasti**: No, I mean this is only for Phase-II. The expense that has happened since 2006, 2007, has already, been written off on the balance sheet.

**Arun Nair**: So how much would that be?

**Venkat Jasti:** I mean, see, when you're talking about this R&D expense, it is not necessary for one molecule. Only you can quantify after Phase-I. we can tell how much is going to happen for each molecule. Before that, it's the number of molecule, finally you select only a couple of them. So far, for the entire pipeline put together, we expect about Rs. 600 crore. So the only Phase-II thing we are separating it out. That's only easily accountable. If you want to take a rough guess, you can say to get into a molecule up to Phase-II, on an average, it can cost above $20 million.

**Arun Nair**: Okay. And sir, my last question is on the strategy of high value, low volume ANDAs, you mentioned about 10 ANDAs by 2020, right?

**Venkat Jasti**: Yes.

**Arun Nair**: What can be the impact of this on the Company?

**Venkat Jasti**: I mean, as you know, this is a leverage exercise to start with. And secondly, it is niche molecules where even the brand values are only $20 million to $25 million. When it goes to generic, you know what would be the value. And only thing is you always hear is, even though we are not a big company, since the marketing model we have chosen is a net profit sharing anywhere from 30% to 50%. So, it can be $2 million to $3 million for molecule net.

**Arun Nair**: And any particular reason that we have timed this strategy to happen now rather than, let's say, a few years earlier?

**Venkat Jasti:** Yes because we are not concentrating on the formulations from the beginning, as you know. But as our novel pipeline, which is NCE pipeline growing, we need to develop our own formulations in each clinical trials and later for marketing also. So when we develop infrastructure, you know that you cannot use your infrastructure fully for your NCE molecule as they are few in number. So since we have the capacity created for the small volumes and also the capability, we thought it's better to go and do the leverage exercise, which we did. And we are happy that it is happening. It is one Taro molecule making about $2 million net roughly for a year. So, we thought this is the right way to go and we are going in that direction.

**Moderator**: Thank you. The next question is from the line of Abhinav Ganeshan from Canara Bank. Please go ahead.

**Abhinav Ganeshan:** Just wanted to understand that, sir, couple of molecules are in Phase-III. So when do we expect the completion of this, if you could just give us an approximate timeline?

**Venkat Jasti:** So, we have no idea because this is all dependent on our customers' data known to them. Then only if it is positive then they will know when the next requirement comes. We have only six month's visibility usually. So far, they've not given any guidance on where this molecule is with respect to the clinical trials. So, nothing has come up. So, I'm not able to tell you at this time when exactly. But it can happen within the next 9 to 12 months, one of them at least.

**Abhinav Ganeshan:** Okay. We can say at least one can go through. And the three projects which are in commercial Phase-II, how are those placed now? I mean are we started looking any at any revenue.

**Venkat Jasti:** Yes, I mean this year we expect Rs. 60 crore to Rs. 70 crore which we have given guidance and the repeat sales, I think we can exceed a little bit on that this year.

**Moderator**: Thank you. The next question is from the line of **Vaithyanatha** BT, he is an individual investor. Please go ahead.

**Vaithyanatha BT**: Sorry I barged in again because I heard a couple on this one and I have some follow-up questions. See, once a molecule is commercialized, say the diabetes drug, I'm just giving you a hypothetical example, say the sales of a particular quarter is $100 million for that particular company, what is the quantifiable thing, the ripple-down effect to Suven in terms of a percentage or in terms of a quantum? I mean how much do we gain by they selling $100 million in the market for that particular drug? How much do we gain in that aspect?

**Venkat Jasti:** There is no correlation. 10 years ago, that was the case where you can correlate between the sales and the amount of API pricing based on the amount of the intermediates you supply. But now the prices of the drugs are so high in USA and the price of API itself is very miniscule, and on that intermediate for that API itself will be very less. It's very difficult to tell. As I said, it can be $1 billion drug, but at end of the day you may be getting only Rs. 50 crore to Rs. 60 crore of supply to that and you are not the only one to supply that intermediate and there will at least be other two sources .

**Vaithyanatha BT**: They have an option to choose between the lowest among the three suppliers or so, do they have the option to choose between the lowest bid or something like that or like it's a fixed thing before you get that, yes, you will get a certain x amount as sure, like that API business this much will be for sure, this percentage, is this something like that?

**Venkat Jasti:** Yes, whatever their requirement, usually they spread out across the three players because they want to have a risk mitigation plan. And the pricing is more or less agreed upon. So there is nothing like every time they come and negotiate with you. As the time goes by as the volume goes up, automatically there is a price reduction that takes place anyway. But there is nothing like choosing only one customer. They usually take from everybody. How much for each one, they're resisting discussion anyway. But I don't think you will have a loss unless your quality is bad and if you are not able to supply on time and if you're not able to meet the agreed upon price, then only you will lose. But otherwise it's constant thing, roughly 35% to 40% you will be getting.

**Vaithyanatha BT**: Okay. And this mutual funds. I believe the cash on hand was taken out and invested in mutual fund by Suven; A) whether it is true; B) how much have you earned in case for this quarter in case it is true?

**Venkat Jasti:** Yes. We have the spare capital. So we need to put somewhere rather than putting in the savings account, so we get some money out of it. So, I think maybe you can tell [to Venkatraman Sunder] what is the amount you got this quarter.

**Venkatraman Sunder:** The other income is about Rs. 5.62 crore.

**Vaithyanatha BT**: That's the other income which is there Rs. 5.62 crore is the income which we've earned through mutual funds

**Venkat Jasti:** Yes.

**Moderator**: Thank you. The next question is from the line of Amit Kadam from LIC Mutual Fund. Please go ahead.

**Amit Kadam:** Sir on this 10 ANDAs what we've planned to file over next 4-5 years, so this 10 ANDAs already are into generic or will go off-patent in some while?

**Venkat Jasti:** Yes, usually when you choose a product, you choose a product which goes off-patent 2 to 3 years from now, so that by the time the patent is over, our ANDA will be effective. That's the way we work.

**Amit Kadam:** This 10 ANDAs are still into the patent phase, they will go off-patent in sometime

**Venkat Jasti:** Yes, some of them are almost at the end of the patent period. Some of them are a year or two more from the expiration of the patent.

**Amit Kadam:** Okay, and roughly like when they are still into the patent phase as like what is the size, roughly what we are targeting

**Venkat Jasti**: Yes, we are targeting not more than USD 30 million to 40 million maximum sales in the SD innovator level itself. That way not many big players will be coming into the picture, otherwise everybody will be having ANDA right there.

**Amit Kadam:** Okay. But like looking into the current scenario, what we are seeing inside, like even the small molecules have been chased by the competitors. And it has further gone down. So in that perspective, so who will be bearing all this filings cost as such, like it will be under our name, right, like our overheads?

**Venkat Jasti:** Yes.

**Amit Kadam**: So whether like looking to the current filing cost and the compliance what we have to make and then get it FDA approved and other facilities, whether we will be still like because on the day one itself we are like targeting those molecules which have a $30 million-$40 million of a ticket size when it is into the patent stage. And then when it goes off and even if I say that two or three players marketed becomes and then there is a prize erosion, it will justify the things, right, around in the profitability?

**Venkat Jasti:** Yes. What we expect is net profit of USD 2 to 3 million per product when we launch.

**Amit Kadam:** So it will justify because the kind of ROC what we have and the kind of things the capital resources and expansion we have done over past years, will justify, right?

**Venkat Jasti:** Yes, it is justifiable because it's a leverage exercise, not a full-fledged, we have created the infrastructure where only the recurring expenditure is the one additional cost because the infrastructure is there for us. And of course the filing fees, some of the BE spending is shared by the partner anyway.

**Amit Kadam:** Okay. So, but in that case we are supporting always like over the years and work of research, innovations and working closely with the global MNCs and protecting their IPs and another part. And then we are chasing this generic side of the story in the same complex where we'll be doing that IPR regarding work, right sir, because we are trying to utilize the space which is lying idle, so whether it will be like the global MNCs will be ready for taking this particular thing where we are operating in the same complex but two different nature of the work with one which is not IPR-protected generically and one is like IPR-protected.

**Venkat Jasti:** Yes, there is no problem whatsoever. And also, we are not going after that. We are going where it becomes generic in nature to start with. Now not only that, with respect to the Taro thing, if you see it, we have gone and collaborated with the innovator himself, his own product. So similarly, we are working on similar lines. Some of those things if they are interested, we tell the innovator itself, our partner rather, and we will align with them. Because if it is too small a product they may not be interested in.

**Amit Kadam:** So, and the final question is that when we are talking about this 10 products as the first basket of products, so like in this case we have come out with this 10 and got it tied up with some partners in US and then ask that we want to work on this, whether you can partner with us, or they have come to us and given that can you develop this 10 products for us from your facilities kind of thing, where we could jointly operate.

**Venkat Jasti:** Yes. But in the beginning, we choose the products, we look for the partners and that's the way we have aligned with them. But now there are people who are coming to us saying that can you get into these new niche molecules because they know our nature of operation and the capabilities and capacities. So those 10 partners are people who know about us, they don't know us before because we were not in this field before, they're approaching now. But as in the beginning the basket is concerned, we choose those products and we asked people who are in this field to collaborate well with us.

**Amit Kadam:** And like when we are now getting into this segment as such, so are we planning to restrict because this molecule could be fit into any other regions also, regulatory market like Europe and other parts. So right now the focus is only catering to the US and US filings

**Venkat Jasti:** No, it's not US filings alone. It can be US, Europe combination, even Korea, even Japan. We are working on that direction.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

**Venkat Jasti:** Thank you, everyone, for tuning in. And as I have mentioned, things are moving but not at the pace what we had expected in terms of the NCE pipeline is concerned. But things are moving and without any red flags so far as far as the safety aspects is concerned. So a very good positive thing for us and that makes us much more vigorous to pursue this activity. And with respect to the CRAMS, I mean our value creation is there even though the growth is not that much, but we are getting much better EBITDA margins. It may not be quarter-on-quarter basis, but at the end of the year, we may try to maintain the plus 20% net profits, plus 30% EBITDA margin. And barring any positive surprises, things are going smoothly. With the positive out-comes, then things can move much faster pace. And thanks again for tuning in and hope to talk to you in three months' time. Thank you.

**Moderator:** Thank you. On behalf of Suven Life Sciences limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

**Please note:** Edited the language, wherever appropriate, to bring better clarity.