Suven Life Sciences Limited

Conference Call Transcript
February06, 2014

Moderator Ladies and gentlemen good day and welcome to the Suven Life Sciences Limited Q3 & 9 M FY14 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 * and then 0 on your touchtone 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 Inba and good day everyone and thank you for joining us on this call to discuss Suven Life Sciences' financial performance for the quarter and nine months ended December 31st 2013. We have with us from management, Mr. Venkat Jasti – the Chairman and CEO and Mr. Venkatraman Sunder – VP, Corporate Affairs.

Before we begin, I would like to mention that some of the statements made during today's discussions may be forward-looking in nature and may involve risks and uncertainties. For a more complete listing of such risks and uncertainties, please refer to the investor presentation. Documents relating to the company's performance have already been e-mailed to you earlier. I now invite Mr. Jasti to provide some perspective on performance, post which we will enter into Q&As. Sir, over to you.

Venkat Jasti Good evening everyone. As you know, we did a little better than what we thought, we could do so owing to the continued supply of the three prelaunch quantities for the three molecules for the innovators. Other than that, everything is status quo in the sense all the things which we had said last time are going through, like SUVN-502 is undergoing Phase-1 and there is not much because it takes time and quarter-on-quarter we cannot give you what is happening on that aspect other than two of the molecules which are moving into pre-R&D toxicology stage and some of the three molecules are still being supplied a little bit more in this fourth quarter also, but not much. With respect to the Vizag, things are moving very well in the construction stage and we hope to have that done by FY14-15 and so that 15 April onwards we can have the revenues on that front.

We continue to do what we are supposed to do. I will rather take the questions and answers. Over to you

Moderator Our first question is from Sanjay Shah of KSA Shares & Securities. Please go ahead.

Sanjay Shah Revenue improvement is because of supply of prelaunch quantity of new chemical entity. So is there any residual supply going through in the Q4 or now that job is over?

Venkat Jasti Very small quantity will be going through final stages, not much.

Sanjay Shah So how do you see revenues post this dispatch because it is quoted saying that next year onwards it will be much stronger on the bottom-line with the base loading of the activities. Can you explain?

Venkat Jasti Yes. As you know until now we are selling CRAMS molecules on a campaign basis until last year. Only last March onwards, we supplied the prelaunch quantities of these three molecules. So that gives new additional revenue and also the profitability. But what happens is once we finish the supply; they will make the product and it will go into the market after the FDA approval which will be sometime at the end of the calendar 2014. Then in 2015, you will get the repeat orders because since we are one of the suppliers, we will be getting certain minimum quantity of business not on a campaign basis, this will be on a continuous basis that means this will form the base loading of the activity which we did not have before because like any other API if you are supplying day in day out that will give you base loading, but in our case since it is the intermediates for the CRAMS, we are only supplying bits and pieces on and off one year or may be 2 years later. That will not give you a base loading effect, but whereas these three molecules with the repeat orders coming in FY15-16, it will base load the activity. Added to that, you will have the CRAMS supply anyway. Thus, a stronger bottom-line will happen from FY15-16 onwards.

Sanjay Shah Does the margin in the repeat orders that you say depends upon the success of the drug?

Venkat Jasti No, margins are not based on success only, margins are based on the values we have agreed upon. Suppose if I sell for a dollar today, tomorrow when a commercial order comes in, it will be around 65 to 70 cents. So the margins will come down, but at the same time depending on the success of the molecule, the volumes will come in, that is the difference.

Sanjay Shah Regarding your launch of own NCEs, you said quarterly it is not possible to say about it, but still how further is it and more due to the less risk awareness seen. How do you plan going ahead with that?

VenkatJasti Phase-1b is still undergoing in USA and then Phase-2a where proof of concept has to be done which is sometime in the third quarter of this year. So two years after that, we will know whether the molecule is good or not because the results will tell you. If it is good you will get the monetization. If not, you will not get anything out of it.

Sanjay Shah How are we funding that since it involves huge cost?

VenkatJasti It is a US$20 million. As of now, we are thinking of going and raising money from the market which will be sometime in the second quarter of next year.

Moderator Thank you. Our next question is from Saurabh Jain of Sushil Finance. Please go ahead.

Saurabh Jain Besides these three prelaunch quantities which we supplied during last couple of quarters, there are 98 other active projects with the three molecules in Phase-3, is it right?

Venkat Jasti No, including these three, it is 98.

Saurabh Jain For how long these three prelaunch quantities were in Phase-3?

Venkat Jasti Around 3 years.

Saurabh Jain What could be the steady rate for the topline for next fiscal?

Venkat Jasti Next fiscal as we have mentioned is around INR 400 crore.

Saurabh Jain And similar kind of margins which we…

Venkat Jasti No, because next year this kind of R&D pricing is not there, that is a regular CRAMS business. We expect it to have PAT of about INR 60 crore.

Saurabh Jain What could be the possible size of these repetitive orders following these three prelaunch quantities?

Venkat Jasti Roughly it will be around INR 150 crore which we will be supplying. So when the repeat order comes, it should be around INR 80-90 crore.

Moderator Thank you. Our next question is from Veena Patel of iWealth Management. Please go ahead.

Veena Patel I have couple of queries pertaining to the three molecules which we discussed about the prelaunch mode. So how many suppliers are there apart from us?

Venkat Jasti We do not know exactly, but we guess there are two more. Usually, they will have three suppliers, one from US, one from Europe and one from Asia. If they happen to have an Asian source, I will be the Asian source.

Veena Patel We are the sole supplier from the Asian region?

Venkat Jasti Yes, that is sure.

Veena Patel What would be the rough cut percentage that has been supplied by us to them?

Venkat Jasti Around 40% of the requirement.

Veena Patel Out of the 9 months of the topline, how much was contributed by these three molecules?

Venkat Jasti The topline is roughly INR 140 crore.

Veena Patel We just got the update on the FDA approval for our Pashamylaram facility. So how will this be beneficial to us?

Venkat Jasti No, it is not a new FDA approval, it is a renewal. In 2007 was the first time we got this facility approved and then in 2010 again it was renewed and 2013 again it was renewed. How renewal applications help is that I cannot supply these prelaunch quantities because even though they are not APIs, it requires a GMP facility. So we need these kinds of facilities to supply this kind of a molecule so that is the advantage. If I do not have that, if I do not get the renewal, then I will be in jeopardy.

Veena Patel What is the progress on our formulation business and are we entering that?

Venkat Jasti Yes, we are entering the formulation business. It is in a development mode, not in a marketing mode. That means we are developing some services and some ANDAs we are trying to develop on our own. We have already filed one ANDA and then that actually will have some kind of success very soon.

Veena Patel Will it be in the next financial year?

Venkat Jasti Yes, may be sooner than later.

Veena Patel The margins on the formulation front are on the higher side compared to the APIs, but looking at the NCEs we feel that we are into, already our margins on the higher. So going ahead with the formulation business entry, the margins will be higher than what we are having currently.

Venkat Jasti Not necessarily. I am not into APIs, I am not into generics, I am into NCE based intermediates and if you see the last supply for prelaunch quantities, my margins are close to 50%, but in formulations, you will not get that kind of margins which involves the marketing expenses, but moreover we are not a market based formulation development. We will be developing and collaborating with somebody, out-licensing it, and getting some royalties from it. So you cannot expect that the margins will be higher as far as I am concerned, but in general, formulation gets more margins than the API.

Veena Patel What will we be manufacturing in our Vizag facility?

Venkat Jasti Vizag facility, we are going to manufacture as a first Phase in a specialty intermediate, which I have mentioned last time which had about US$10 million business last year and this year about US$15-18 million business. For that, additional capacity is needed and additional US$15 million business will come into that.

Veena Patel The commencement is from April 2015, so in FY16 will we start getting the revenues from the Vizag facility and will the margins improve from FY16 then?

Venkat Jasti The margins may not improve, bottom-line will improve. As the volumes go up, it cannot be like what we have in these three quarters, but at the same time we have margins, net profits in about 15%-20% range.

Veena Patel What are the sustainable operating profit margins?

Venkatraman Sunder Sustainable operating profit is around 15%.

Veena Patel What kind of topline growth can we expect from our existing 95 projects?

VenkatJasti For next year it will be around INR 400 crore sales, including the specialty chemicals.

Veena Patel What is the growth rate that is expected from our existing businesses?

Venkatraman Sunder It is on an average of about 20%, and in last year, it has been little higher than that.

Veena Patel ByFY14, what will be your tax rate?

Venkatraman Sunder The overall tax is expected to be around INR 60 crore.

Veena Patel And for FY15, what would be our effective tax rate?

Venkatraman Sunder FY15 will be lower than that. It could be close to around less than 30.

Veena Patel Can you give the effective tax rate in terms of percentage?

Venkatraman Sunder What happens in our case is when it is INR 60 crore then on an average if you see about INR 38-40 crore, it will be the MAT based. Rest of them is on deferred taxation basis. That is why now you are almost reaching a 30% stage.

Veena Patel by FY15, will it factor in around 30% to be our effective tax rate?

Venkatraman Sunder Yes. There is a rider to it if you have a good R&D where you get a good 200% weighted average benefits that could give a better leverage on reducing the tax impact.

Veena Patel How much of the percentage of sales are we expecting to be our R&D expenses?

VenkatJasti This year, it will be close to INR 45 crore. Next year, since we are moving three molecules into the Phase-1 study, it will be around INR 50 plus crore.

Venkatraman Sunder So which means that effective taxation could be lower than 30% today, somewhere between 20 and 30. MAT anyway you have to pay, but deferred taxation benefit you get. But it will be too early to say in precise terms of what could be the tax impact.

Moderator Thank you. Our next question is from Parth Mehta of ICICI Venture. Please go ahead.

Parth Mehta Is there any visibility for our supply of intermediates for the other drugs which are in the pipeline, any visibility for the prelaunch mode other than these three?

VenkatJasti We have not heard anything from the customers.

Parth Mehta So nothing except the CRAMS business we are seeing for the next 2-3 quarters?

Venkat Jasti That is right.

Moderator Thank you. Our next question is from Subrata Sarkar of Dalmia Securities. Please go ahead.

Subrata Sarkar Can you throw some light on details of R&D capabilities and the area on which you are working on? You have around 614 products patent and you are almost working on 98 CRAMS projects, but few points would be great on that like the area in which most of this CRAMS projects are, what are the R&D capabilities and starting from number of human resource to what are the facilities we have got and how do we expect the next two-three years to unfold?

Venkat Jasti The thing with respect to CRAMS, there is nothing like a therapeutic area centric. These 98 projects belong to all categories and what we supply is intermediate. Intermediates are chemistry based. So we have no problem.

Subrata Sarkar The intermediates that we supply to our clients, they work into what all related areas?

Venkat Jasti This related area spreads out across cancer, diabetes, depression, Alzheimer's and many areas we have covered and some of them we do not know because it is only chemical structure which is given. Only when it goes throughPhase-3 and becomes successful, is when we know which product is going. As it is chemistry, we do not have any therapeutic indication at this stage because it has to be converted along with the other intermediates into API, then only the nature of the molecule will be known. As far as the product patent is concerned, we are essentially working on the central nervous system disorders only. Out of which, cognition based activity is much more prevalent in our portfolio that is cognition in Alzheimer's, cognition in schizophrenia, then again depression, Parkinson, ADHD and pain. These are the areas which we are working on. With respect to the human resources, we have more than 830 people. Out of which, 380 people are in R&D.

Subrata Sarkar What are the key skills they have?, Are they highly skilled people?

Venkat Jasti Yes, they are highly motivated people. We do not have high-flyers in our portfolio personnel. These are all home grown in the sense only 3 or 4 people have real experience. In India, you do not get people meeting the drug discovery capabilities that easily and especially in central nervous system disorders. Hence what we have to do is we have to train the fresher's and, cross train them and use them. People we take are more motivated people The attrition rates in our R&D people, it happens only in the first year because they learn more, they jump out, but if they stay for 2 years, the attrition rate is less than 5%.

Subrata Sarkar Is most of this handholding and training done in-house or do we hire some consultant for that?

Venkat Jasti All in-house because consultants also do not have this domain knowledge.

Subrata Sarkar So this more like we came across while developing and working on the company during their have tenure only in working in this company.

Venkat Jasti Yes. The motivation for them is to be in the patent pipeline and hoping that the molecules they working will go into the global market which not possible in other areas.

Subrata Sarkar We are also venturing into or trying to develop own formulation. So for CRAMS business, at times clients have got some restriction like the area where you can launch your own

formulation and all those. They have a certain binding for some companies. Do we have that kind of a constraint or will this venturing into formulation affect our CRAMS projects?

Venkat Jasti Not necessarily because these are the CRAMS businesses which we are taking for those things which are getting into generics and are 3-4 years ahead of us. We are going to develop and look for a partner, this is a very new exercise which will start and we are not going to go into the real big items, we are going to go into a very niche area because this will not our core strength and that is not what we are looking for. It is not market based; it is on a development cum the licensing base.

Subrata Sarkar Most of these CRAMS projects which we are doing for our partners; are most of them generic players in that case?

Venkat Jasti No, our CRAMS except for one item, everything is for the innovative companies only and which are in the clinical Phase-s of the drug development.

Subrata Sarkar Most of them are actually Innovator Company, not generic company.

Venkat Jasti All of them are Innovator Company.

Subrata Sarkar Out of this 614 product patents, are any of them in US? We do hold any US product patent as of now or are we in the process of that?

VenkatJasti We have about 17 product patents in US. Out of 18 inventions, 17 are already granted in US. But all these are global patents.

Subrata Sarkar Can you give us some indication like the potential of this product patents in terms of market price or like any indication or any input you can give us on that?

Venkat Jasti It can be billion dollars, still US$6-$8 billion per each product when it may choose and go into the market, but as of now it is of zero value. But to give you an example, a molecule like SUVN-502 which we are going to do in Phase-2a, by the time it finishes it will be in 2016 and if it is a good molecule, then I have a benchmark in July itself, similar kind of molecule was licensed for $150 million upfront, then $685 million for the milestones and royalties. So these are the kind of things that can happen, but it has a long time to go and as of now it is of zero value.

Subrata Sarkar Since you are thinking of raising fund next year, so any ballpark figure that you are thinking of raising sir?

Venkat Jasti US$20 million for the clinical development of SUVN-502.

Moderator Thank you. Our next question is from C Shreehari of PCS Securities. Please go ahead.

C Shreehari I would like to know the split of the 95 projects in terms of how many are in Phase-1, Phase-2 and Phase-3. Secondly could you give us some idea about CAPEX for the current fiscal and next fiscal?

Venkat Jasti The total is 98, three are in Phase-3 which are in prelaunch mode, 44 in Phase-2, 51 in Phase-1. As far as the CAPEX is concerned, we have INR 110 crore worth of CAPEX for the Vizag plant, out of which about INR 30 crore will be spent before March and the rest will be spent next year. We have a CAPEX for the replacement of the old equipment which will be around to the tune of INR15-20 crore.

C Shreehari That will be annually INR15-20 crore?

Venkat Jasti Yes.

C Shreehari There search spends during Q2 was significantly higher than the other quarters at around INR 18 crore. Could you explain the reason for that?

Venkat Jasti Yes, we are doing Phase-1(b) and its costing a little bit more and also we already started some preclinical toxicology for other molecules. We have been spending money based on what we earn. Sincewe are earning more this year, we are spending a little bit more that means taking many more products to the next level. That is why you see that spending.

Moderator Thank you. Our next question is from Ashish Rathi of Emkay Global. Please go ahead.

Ashish Rathi Is there a difference between the regulatory requirement from US FDA perspective if you are supplying an intermediate versus an API or a formulation. The context is with regards to the certification of the plant.

Venkat Jasti Certification of the plant is a prerequisite for us to go and sell into the US market. The second thing is with respect to the intermediates, not all the intermediates require USFDA certification. Depending on where they list this intermediate in their drug master file with the FDA is the question. Some of them are called regulatory intermediates, some of them are called just intermediates. So the supplies which we are doing are out of the three, two of them are the regulatory intermediates. One is the regular intermediate. For the regulatory intermediates, you need to have the USFDA approved plan.

Ashish Rathi Can this be approved on a block-wise or a unit-wise basis on the whole on the plant or it has to be on the whole plant itself?

Venkat Jasti It is a whole plant. As a matter of fact, since we have amalgamated our formulation development center also, the approval is for the APIs, intermediates and formulations, so it is a total approval for the site. Then if a particular product ANDA is filed, they can come for an audit again even before 3 years. It is a possibility.

Ashish Rathi On the R&D spend, the 200% deduction factor which you said, do we get the deduction on the spend which we do for research in US or clinical trials we do in US.

Venkatraman Sunder No, that is not eligible.

Ashish Rathi is it geography specific or is it the country for which the drug is filed? For the same drug, can we do the trial in India?

Venkatraman Sunder No. The DSA or R&D recognition of 35 a2b is basically for in-house R&D programs that we have spent in-house and also our recognized R&D sectors within India. Suppose if we do it in US or any other country, it is not eligible for 200% weighted reduction as of now. If Government of India brings in new regulations to add that where more molecules are going to go abroad for clinical trials, then we may get that benefit, but as of now it is not there.

VenkatJasti Moreover patent cost is very high for us and only for the patent fee is filed for Indian patent only, it is eligible, but for my US patent, Europe patent, Japanese patent, I am not eligible for the 200% weighted average reduction.

Ashish Rathi For the Alzheimer's drug, what are we doing? Are we are conducting the clinical trials in US. Can we file the patent from that trial itself for the Indian market?

Venkat Jasti No, we have already filed the patents globally. All the countries are covered under that, 170 countries.

Ashish Rathi But the spent even utilized in India will not be eligible for deduction, is that correct?

Venkatraman Sunder The utilization factor has got no meaning as far as DSA is concerned. It is only where you spend within in-house R&D, within India, recognized R&D centers based are within India, it is eligible for total percent weighted reduction, otherwise not.

Moderator Thank you. Our next question is from Ranvir Singh of Sharekhan. Please go ahead.

Ranvir Singh Out of the98 projects, are all these projects contributing to revenue or do we have to move up from Phase-1 to Phase-2, or wait for Phase-1 to Phase-2 and then we get a revenue or how it works?

Venkat Jasti Roughly two-thirds will contribute to the revenue because one-third will be active, but not the supply during the year.

Ranvir Singh So the current CRAMS revenue whatever we see is roughly two-third of the projects.

Venkat Jasti Average 60% to 65% is contributing to the revenue.

Ranvir Singh So rest one-third when will they contribute? What milestone or what conditions are attached to it?

Venkatraman Sunder It is not the conditions. The balance one-third may be in the next year when it goes for some kind of supplies required for clinical trials, yes it will be a very good revenue. It goes to a cycle.

Venkat Jasti It is on a campaign-basis because today I supply say 10 kgs for a Phase-1 molecule, by the time they do the Phase-1, it will be 2 years and this will come back after 2 years, it is 100 kgs for Phase-2 like that.

Ranvir Singh What would be the base margin for this quarter if I exclude that one-off from that API?

Venkatraman Sunder Assuming the quarter which is coming up right?

Ranvir Singh This quarter only.

Venkat Jasti Out of the total profits achieved, we have got INR 36 crore, INR 16 crore related to the CRAMS and then INR 20 crore related to the prelaunch quantity products what we have supplied.

Ranvir Singh Excluding 9-month revenue from the3 APIs, we believe that total base revenues would be around INR300 crore and next year we are expecting INR400 crore. So will30% plus growth be coming from CRAMS only?

Venkat Jasti Yes.

Moderator Thank you. We will take our next question from Saurabh Jain of Sushil Finance. Please go ahead.

Saurabh Jain Could you throw some more light on your strategy on formulation business. Would it be contract manufacturing or your own and what would be the target market for that and target therapies? What could be the size of this business over the period for the next 3 years?

VenkatJasti It is not for contract manufacturing because this is a development center. We started this for the NCE-based and also to supply the clinical trial supply after development. Now we have added little bit more things to that to do the niche products for the ANDA. Now we are tying up with one or two customers and we are developing and then they will be taking over and doing the bioequivalent and then they will be launching it and we will be getting some royalty. This is the way we are trying to do. This will take you 2-3 years before you see real revenue other than the one ANDA which we have which will have very soon some potential.

Saurabh Jain For ANDAs, what is our pipeline going forward for next 1 or 2 years?

Venkat Jasti As of now, only one ANDA is there. Rests of them are under development.

Saurabh Jain What is the rationale for going into this business like it is already an overcrowded business it seems.

Venkat Jasti One side people are telling me that formulation has a high profit margin and second side you are saying over crowded. But the reason we have taken this up is for our in-house NCEs, we know how to develop the formulations. Similarly, we are also developing formulations for the outside people on a contractual basis including the supplies. Since we have that, we are going after only the niche molecules and small molecules, there are not many people who will be interested in and trying to develop the ANDAs and trying to find out partners who in turn will market those things. So one side, you want to go into big baskets and hundreds of people will be there, but when you are going into US$20-US$50 million sales business, not many people will be entering into it. That is where we are concentrating.

Saurabh Jain On the CRAMS side, any new developments you could share with us like new client acquisitions or new projects, that's because we are targeting some 20% kind of growth on this business, so what would be the key drivers?

VenkatJasti The number keeps changing. Last year it was 90, now it is 98, but a lot of churning has taken place. The same 90 are not still there, some of them have added, some of them have gone and new clients added throughout the whole year is 5.

Moderator Thank you. Our next question is from Krishnendu Saha of Quantum Asset Management. Please go ahead.

Krishnendu Saha Could you just throw some light on the ANDA which you are filing, what kind of what product and what is the whole asset out there?

Venkat Jasti This is for head lice and it is a topical preparation.

KrishnenduSaha Have we filed it or you are going to file it?

Venkat Jasti It is filed already and we will hear it hopefully soon, it is an up market opportunity for us.

Krishnendu Saha What is the market range for this product right now?

VenkatJasti The sales potential is US$25 million, but we are only going to get some royalty from that because we are not going to sell it, we are going to only supply it.

KrishnenduSaha Any more ANDA filings you will be doing in the next 2, 3 or 4 years or what is the pipeline currently?

Venkat Jasti We are trying to get 4 or 5 ANDAs filed over a period of 2 years.

KrishnenduSaha What will be the therapy areas for this and will it be partnership?

Venkat Jasti It will be partnership only.

KrishnenduSaha What therapy areas will it be for?

VenkatJasti It will be for various kinds. We are looking at the market size and niche areas. We have started with head lice, next one is going to be for an upset stomach and the other one is for some kind of a pain. Depending on the nature and which we are working on, which one will be finalized, we do not know yet.

Krishnendu Saha But have you filed the DMF for any one of these?

Venkat Jasti No.

Moderator Thank you. Our next question is a follow-up from Parth Mehta of ICICI Ventures. Please go ahead.

Parth Mehta Do we stick to our revenue targets for the year at about INR 450-480 crore or do we revise it upwards.

Venkat Jasti May be INR 5-10 crore more.

Parth Mehta So are we looking at about double digit INR100 crore of revenues or flattish revenue quarter-on-quarter type?

Venkat Jasti That is right.

Moderator Thank you. Our next question is from Veena Patel of iWealth Management. Please go ahead.

Veena Patel What will be our gross debt levels by the end of this financial year?

Venkatraman Sunder At this point of time, the debt level is INR65 crore long term and then INR27 crore, short term which is working capital.

Veena Patel How much was the short term loan?

Venkat Jasti Short term is INR27 crore.

Veena Patel What is our average cost of borrowing?

Venkatraman Sunder We use PCSTs which is about much lower rate.

Venkatraman Sunder You can say 6%.

VenkatJasti Average is 6% overall.

Veena Patel For FY15 the kind of the CAEPX that we are going to make, would we be requiring further debt or will that will be supported by our internal accruals?

VenkatJasti We have taken INR 45 crore term loan from State Bank of India for this Vizag plant. Out of which, we will be using roughly about INR 10 crore this year and INR 35 crore next year. The rest of them INR 110 crore is the balance from the internal accruals.

Veena Patel Is further borrowing not required? Do we already have kind of term loans?

Venkat Jasti As of now, no.

Veena Patel As far as the contribution in the topline from the three molecules which you mentioned about the prelaunch mode, around INR 140 crore came from these three molecules. What will be the contribution at the PAT level from these three molecules?

Venkat Jasti 50%.

Veena Patel For the first 9 months?

Venkat Jasti Yes.

Veena Patel And sir for FY14, we are looking at topline of around INR 460 crore approximately?

Venkatraman Sunder Yes, INR 490 crore.

Veena Patel What about PAT, how much are we expecting for FY14?

Venkat Jasti 15% net.

Veena Patel On the business of CRAMS, what is the general tenure of the contract that we are into?

Venkat Jasti Generally, the contract is day-by-day. The reason is when you supply the first quantity for Phase-1, there is no guarantee that it will repeat because Phase-1 success is at the customer level only and will order the Phase-2 quantities. So there are no guarantees until it has gone into market. When it goes into market, then you have whatever the residual period of the patent, you will be given the supply quantities. So there is no tenure for the prelaunch molecules. Only after launching, you will have tenure, it is 8 years to10 years or 12 years.

Veena Patel For our existing 95 projects, what is the average tenure of the contracts?

Venkat Jasti It is nothing like a contract. If you supply, based on the success of the customer only, you will get the order back.

Venkatraman Sunder One assumption could be if some 44 in Phase-2 moves into Phase-3, you can say that it will turn up to another 42 months. But are we going to supply for 42 months, which we do not know.

Moderator Thank you. Our next question is a follow-up from C Shreehari of PCS Securities. Please go ahead.

C Shreehari Can you share some details about three molecules vis-à-vis at the therapy or the customer?

Venkat Jasti Customer I cannot tell you, but therapies I can tell you. One is rheumatoid arthritis, the other one is diabetes, the third one is depression and two of the customers are European origin, one is US origin.

C Shreehari And the fund raising that you spoke about, do you have any target in mind. How much have you planned to raise?

Venkat Jasti As of now, US$20 million in second quarter

Moderator Thank you. Our next question is from Ashish Rathi of Emkay Global. Please go ahead.

Ashish Rathi We have been reading about some competitiveness from API supplies from China becoming less effective and do we import any raw materials from China?

Venkat Jasti Yes.

Ashish Rathi Are you seeing anything on that side in terms of any developments on the regulatory front which is making it more difficult?

Venkat Jasti No, we are not importing API, we are importing the raw materials.

Ashish Rathi Is anything happening on the API front which is making it more difficult to import APIs well?

Venkat Jasti For the APIs, they are trying to put an inspection. The APIs which we have to sell it to other countries, they inspect us and approve. Similarly, Indian players are asking for the same thing which should be done when a product is coming in from China. The factory should be approved factory, approved product. That is what they are trying to do and eventually I think DCGI will send teams. It will take couple of years before you see this kind of activity.

Ashish Rathi the raw materials that we are importing from China, the main reason for importing from China not locally would be cost or would it be actual crop based raw material not being available here?

Venkat Jasti Not being available here.

Moderator Thank you. Our next question is from Amish Kanani of JM Financials. Please go ahead.

Amish Kanani On a 3-year basis on the CRAMS side, how do you see the R&D pipeline of the kind of companies that you are working whether there is an increased attraction there and you see the business growing, you have a historical growth rate of about 20%?

VenkatJasti 2009 was the worst year for the global Pharma market, that time they rationalized their portfolios. Before they used to have 10 to 15 different therapeutic areas and which one to go first, which one to go to last is a kind of tug of war between themselves, not much traction happening. Since then, everybody has cut down to 3 to 4 therapeutic areas. Then the focus increased, the traction also increased and in our case we see after the dip in 2009, we have growth that is happening, INR50 crore growth is happening. Similarly, I see much better traction that is why we are much more hopeful.

Amish Kanani How are they growing the Indian supplier versus the other competing nation?

Venkat Jasti In my business, I had no problem. If I get into one, I am there until the product is dead. So I am not giving a generic kind of a thing where I have to worry about somebody else encroaching upon us. If I am there, I am there for good.

Amish Kanani I appreciate that. Once you are in, you know that till the project is continuing depending on the success or failure, you will be there. My question was in terms of new business and new R&D projects you getting.

Venkat Jasti I do not see any problem.

Amish Kanani And sir is there a recent depreciation of rupee helping us? Are we becoming more price competitive vis-à-vis other nation?

Venkat Jasti Not in my business. It is okay. Ours is a long term and preapproved kind of a thing. It is only the movement of the molecule that is most important for us, not the cost at the initial stages or the middle stages. The cost comes after the launch. So right now, I do not have any problem.

Amish Kanani And how does the pricing go in the sense that do customers come to you and ask you to lower the prices in dollar terms?

Venkat Jasti Usually The pricing will be given at the initiation of the project itself. What will be the pricing for the R&D quantities, what will be the pricing for 100 sub kgs, 1,000 sub kgs, multi tonnes and the commercial quantity at a ballpark figure and which we will renegotiate and much difference, 5% this year let us say.

Amish Kanani So this pricing gets renegotiated every what year or something like that?

Venkat Jasti Nothing like that. It is based on the next level. Suppose if I supply 10 kgs this year and next year also 10 kgs, price remains the same, but if you say supply 10 kgs and next I am supplying 100 kgs, then we already agreed upon 100 kg price.

Amish Kanani So you are saying it depends on the Phase-. If it moves into the next Phase-, even the pricing…

Venkat Jasti It depends on quantity and Phase.

Moderator Thank you. Ladies and gentlemen that was the last question. I now hand the floor back to the management for closing comments.

Venkat Jasti Thanks for calling us and taking clarifications and if you need any further clarifications, you can send an e-mail to us at vsunder@suven.com or jasti@suven.com or to CDR and I thank CDR for making this possible. Thank you.

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