Suven Life Sciences Limited

Earnings Conference Call
May 15, 2017

Moderator Ladies and gentlemen, good day, and welcome to the Suven Life Sciences Limited Q4 and 12 months FY'17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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. RabindraBasu from CDR India. Thank you, and over to you, sir.

RabindraBasu Thank you. Good day, everyone, and thank you for joining us on this call to discuss the financial results of Suven Life Sciences for the quarter and 12 months' ended March 31, 2017. We have with us Mr. VenkatJasti - the Chairman and CEO; and Mr. Venkatraman Sunder - Vice President, Corporate Affairs. 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, and I trust you have had a chance to go through the same. I would now like to invite Mr. Jasti to share some perspective on the performance for the quarter and 12 months and his outlook for the year ahead. Over to you, sir.

VenkatJasti Thanks one and all for logging into our financial results con-call for , the year ending March 31, 2017. As you could see, year-on-year growth on the income is 8.85%owing to addition of the commercial quantity that happened this year. Otherwise, the EBITDA margins are much better at 25% and growth is also thereby 25% and net profit has also gone up by 23.5%. The disappointment is mainly due to lack ofgrowth in the basic CRAMS business, but that has been compensated by the small portion of the commercial quantity which was sold. We hope to achieve the 10% to 15% growth on the basic CRAMS, but we have a better visibility on the commercial projects, which may double in comparison to the amount sold last year. Last year, we sold about Rs. 34 crore. This year, it will be in the range of Rs. 60 crore toRs. 70 crore as of today based on the estimates we have. And that is mainly with respect to the CRAMS side of the business.

In Specialty Chemicals, the volumes remain the same as last year. Practically, there is no growth on that as I was telling you always this is a fully mature project. As a matter of fact, there is a 2% to 3% increase even though volume is little bit more because of the dollar-rupee valuation. So, the final sales value is same as last year and hope to have the same thing for the next year also.

With respect to the innovation pipeline, SUVN-502 is undergoing the clinical trials forPhase II, 40% of the enrollment has happened, still it is a disappointment in a way, we expectedto finishmore enrollment by this time, but this may delay the

process and now the estimate is middle of next year to complete the trials in third quarter maybe the results readout that is 2018. And with respect to the SUVN-G3031, we are preparing for the Phase II trials. The protocol design and other aspects are being taken care of.

With respect to the 4010, the long-term safety toxicology is undergoing after Phase I. And with respect to the 911, we'll be starting the clinical trials within this month, and that will be ongoing. We are also strategizing another two more compounds, I think, it will be in the next three to four months we will have another two compounds coming into the clinical stage.

I think with this, I'll hold on to this and wait for your questions so that I can answer.

Moderator Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Amey Chalke of HDFC Securities. Please go ahead.

Amey Chalke I had two questions. First is obviously, can you give us or provide the segment wise breakup for this quarter between CRAMS, Specialty and the Services?

Venkatraman Sunder Yes. For CRAMS for this quarter Rs. 61.45 crore, specialty chemical Rs. 101.59 crore, and contract technical services Rs. 11.96 crore.

Amey Chalke Okay. So what was the main reason for growth in this quarter. Is there any molecule which has moved from Phase II to Phase III or any other significant change which has happened?

VenkatJasti Actually there is no growth, if you see in the CRAMS side of the business this last quarter we did Rs74.39 crore, this time it's Rs. 61 crore. But as you know the specialty chemicals, the amount is Rs. 101 crore because as you know this is a seasonal one, the deliveries will be staggered. So, this quarter, always the last quarter, if you see last time also this quarter we sold about Rs. 88 crore. So similarly this quarter, this is the higher quarter ever for that volume. The total sales remains the same as last year.

Amey Chalke Okay. So and how much is the one-off commercial sales for this quarter?

VenkatJasti Nothing.

Amey Chalke So, you said that going ahead the visibility on the commercial sales has improved from Rs. 34 crore to Rs. 60 crore to Rs. 70 crore, I guess, previously you had guided for Rs. 45 crore. So, what is the reason for it, is it because more than one molecule is getting commercialized or?

VenkatJasti No, Amey, the molecules got commercialized, but this is for one molecule only. Last year, we have supplied two different molecules. So this one molecule only we got visibility as the sales are doing good and they have given an indication, this maybe the requirements that's why I gave you that numbers.

Amey Chalke Okay. So, the sale is coming from only one molecule?

VenkatJasti Yes.

Amey Chalke The visibility on other two will increase going ahead?

VenkatJasti It will take time. It looks like because as I said in the next four to five months only we willhave clarity, as of now I don't have any guidance.

Amey Chalke Okay. And the status of Phase III molecules is two only right even in this quarter?

VenkatJasti Yes, it remains the same.

Amey Chalke Okay. And one quarter specific question on financials, our depreciation increased substantially. Is there any specific reason? Is there one-off there on sequential basis it has increased?

Venkatraman Sunder See, the depreciation increase is basically because of our commercialization of the Vizag plant.

VenkatJasti But that's not this quarter now. Are you talking annual year-on-year basis or quarter-on-quarter basis?

Amey Chalke I was looking at a standalone quarter number.

Venkatraman Sunder Yes, from Rs. 5.5 crore last year, it has gone up to Rs. 7.18 crore. That's a very small increase because of some more additional equipment that would have been brought.

Amey Chalke Okay. And the reason for staff costs increase maybe of the same reason because of this facility, is it?

Venkatraman Sunder Correct.

Amey Chalke Okay. And related to the Phase II trials of 502, I guess you had guided for middle of FY '18, is it?

Venkatraman Sunder Yes. For completion of the trial. But by the time, the results will be out, it will be end of the year.

Amey Chalke Okay. So what is your view when we got to know from the Lundbeck that they have discontinued those trials after Phase III failure.

VenkatJasti The reason why they have discontinued is because of the toxicity. And because of the toxicity, they reduced the dosing in the next level and that gave negative results on the effectiveness. So in our case, as of now, there is not even a single serious adverse event out of the 219 subjects we have enrolled based on the study molecule. So that is a good sign for us. Of course, the data for the efficacy will be known only post the completion of the study because this is a double-blind study. So we are very happy because with 40% of the enrollment, there has not been even a single serious adverse event, whereas for the Lundbeck, they have 10% liver function abnormality in the Phase II trial, which led them to decrease the dose, which made the molecule worthless because it lackedefficacy.

Amey Chalke Okay. And on R&D guidance basically for next two years, because now, I guess, one more molecule is entering into Phase II and there are a few more molecules which will go into clinics.

VenkatJasti And our standalone, we are still saying about $10 million or Rs. 65 crore. Even though we have guided you for roughly $22 million to $25 million with 502. As you

could see, fiscal 2016 we have spent only $4.5 million and fiscal 2017, we have spent only $5.5 million. In the initial stages, the amounts will be less. But at the end of the study when the data is generated then the burden is much more. So when you start a second Phase II study also you will not have that much of a burden, it is just USD 4 million per year, first year at least. So only thing is for 502, yes, it can increase next year, which is not for fiscal '18, it will be for fiscal '19.

Amey Chalke Okay. So, FY'19 could be the higher R&D year.

VenkatJasti Yes, naturally. That's on a consolidated basis, not on a standalone.

Amey Chalke And that would be more than Rs. 100 crore then?

VenkatJasti Yes, we don't know yet.

Moderator Thank you. Your next question is from the line of Rashmi Sancheti from AnandRathi. Please go ahead.

Rashmi Sancheti Sir, you said $5.5 million, we have spent on SUVN-502 this year, right?

VenkatJasti Yes.

Rashmi Sancheti Okay. And what about the earlier, I mean, till date, how much we have spent on this?

VenkatJasti USD9.61 million.

Rashmi Sancheti Okay. And we have budgeted around $22 million to $25 million, right?

VenkatJasti Yes.

Rashmi Sancheti So, as the earlier participant said that currently we are doing around Rs. 100 crore of R&D expenses in the consolidated financials. So one or two molecule maybe added. So you will not see any increase in R&D expenses in FY'18?

VenkatJasti Yes, you will see maybe 10% to 15% increase in R&D expenses in FY '18.

Rashmi Sancheti 10% and 15% on current Rs. 100 crore you are saying.

VenkatJasti Right, but fiscal '19 we will have a little bit substantial because other molecules will be starting Phase II and also the closing of the first molecule would take much money at that time roughly 40% of the requirement of the budgeted amount.

Rashmi Sancheti Okay. And sir, why is the cash balance so low cash on bank balance so low in FY '17 compared to FY '16?

Venkatraman Sunder FY '17 cash on bank balance is too low because it is an investment.

Rashmi Sancheti Okay. So if you can give more color on it, like, what investment?

Venkatraman Sunder See the thing is that whatever the cash we have will go towards investing in various strategic funds. Last year, probably everything was in cash, it was not in investment. It is all in current investments, which are realizable in three to six months' kind of time frame, mostly short-term investments.

Rashmi Sancheti Okay. So what would be the outlook going ahead. Will it be in the same range or will it increase again?

Venkatraman Sunder Well, we don't want to keep it in cash most of the time. As and when the funds are needed, as Mr. Jasti was explaining about the need for cash for R&D for say, next quarter, we liquidate the same and keep it in cash form for expenditure. Otherwise, we keep invested in short term liquid funds.

Rashmi Sancheti And on sales front, if you exclude the Rs. 50 crore toRs. 70 crore, that is, the three molecules, then what kind of growth are you seeing only in the CRAMS business, excluding the specialty chemical business as well as your three commercial molecule quantity?

VenkatJasti Yes, we are expecting in the base CRAMS, at 15% because not knowing anything converting into sales need to pre-launch. So we expect 10% to 15%. Adding to that, it will be still Rs. 60 crore to 70 crore will be added into the CRAMS section.

Rashmi Sancheti That is something which is additional, right?

VenkatJasti Yes.

Rashmi Sancheti Okay. So 15% is something which you expect in the core CRAMS business?

VenkatJasti Yes, ma'am.

Rashmi Sancheti In next two years?

VenkatJasti Yes.

Rashmi Sancheti Okay. And sir, just one last question which I want to understand on SUVN-502 is that when you are conducting trials on the patients, of course that once you complete the trials you will get the data and everything. But while conducting the trials, do you understand whether the patient is getting any side effects or not getting or are they facing any adverse effects from the molecule? With that, do you understand that you know whether this will be successful or it will not be successful?

VenkatJasti Yes. As I was telling to the earlier question, compared to other molecules, our molecule is very safe. The reason why we are saying that is 40% of the people who enrolled, which is 219 subjects already, there is not a single serious adverse event based on our molecule.

Rashmi Sancheti Okay. And the patient is given six months course or three months course?

VenkatJasti Six months. Not all of them have finished six months. But if side effects are there, that will show up in no time as you know.

Rashmi Sancheti Okay. That one-on-one each patient-related data, the doctor gives it to CRO, and CRO keeps on updating you?

VenkatJasti See we get the adverse events always because the population are adult stage, people like 65 plus. They will have other problems like cardiac problems, dizziness, falling, death, sometimes, all these are there. But they are not related to the drug and these are related to the normal age conditions. So that is where there is no

serious adverse event reported as of today related to our molecule. Hence the molecule is very safe so far. But with respect to efficacy, it's only known after the data is closed. It's closed afterwards, after the end of study. There is a Safety Monitoring Board to analyze the study events periodically.Suppose if some serious adverse event is there, then the monitoring board will come into the picture and they will analyze what is the reason for the adverse event. They meet every six months. And if it's a real serious adverse event, based on the molecule, then they will do it immediately. But so far, we don't have to do that as nothing reported due to molecule. Only whatever the adverse events they have done in earlier conditions is reviewed by the data management board every six months.

Rashmi Sancheti So you believe that in the middle of next year, so that means by March, April, our last patient will get enrolled right?

Venkatraman Sunder Right. You can say it'll be in the middle of next year the enrollment will complete. And then you can say actually by end of next year, most likely October to December 2018 could be the time period where you can expect some results will be known to us.

Rashmi Sancheti In the sense to get some data out of whatever trials we have collected?

Venkatraman Sunder Correct.

VenkatJasti Yes, baseline data will come out first.

Moderator Thank you. Our next question is from the line of HarishaKakera of B&K Securities. Please go ahead.

HarishaKakera Just wanted to know like the new molecules that you're coming out with, the SUVN-502, the SUVN-G3031, and the other molecule, 4010, what system are they targeting to, drug target? Is it the cholinergic or is it the amyloid cascade?

VenkatJasti No. These are all symptomatic treatments, so nothing to do with amyloids. This is mainly the increase in the cholinergic activities using the different targets in the brain. 5-HT6 use different targets, whereas 502 uses 5-HT6. And 4010 usesHT4 and whereas 3031 is H3. So these are different mechanisms.

HarishaKakera Sir, is it a cholinesterase inhibitor again?

VenkatJasti Yes.

HarishaKakera Okay. Because I do not have a good opinion on the amyloid cascade, that's why.

VenkatJasti Amyloid, I mean, it is a new concept. And it is being worked out by the big pharma who are spending billions of dollars towards the same, and is a long way to go. So what we are doing is only symptomatic treatment and also on anyone that is, whether it be these molecules. Since 2003 there is no new molecule launched.

HarishaKakera Yes. It's only for cholinesterase inhibitor then one more that comes to my mind and that has been marketed, right?

VenkatJasti That's right. Yes.

HarishaKakera Okay. Which is why because in late trials this cholinesterase inhibitors is successful, if I'm not wrong.

VenkatJasti Yes, I mean, these symptomatic we will be successful as long as they don't have a side effect profile. I think that is where the problem is coming in, but I think, for one part we have supplemented. Now we have to see how the efficacy pans out.

HarishaKakera Okay. And I would want to know like what is the growth in your base CRAMS and CRAMS business for commercial product. You have given the numbers for this quarter, I would want to know the Y-o-Y growth of the same?

VenkatJasti I didn't give for this quarter, madam, because I gave you for the indication for this year, as of today.

HarishaKakera Okay. So, what is it for quarter, what has been the growth percentage?

VenkatJasti On the CRAMS basis, we expect 10% to 15% growth, barring any positive outcome of the movement of the molecule from one stage to other stage, which I will know only three to four months ahead of time. As of now, I don't have any indication.

Moderator Thank you. Our next question is from the line of SriramRathi from ICICI Securities. Please go ahead.

SriramRathi Sir, firstly on the core CRAMS, I think, you've given guidance for 10% to 15% growth.If I look at the number of projects in Phase II and Phase III, Phase III is more or less same too and Phase II, still it has come down to 38 now. So, basically, just wanted to understand iftheyare expecting some other suppliers for Phase III molecules or something like that?

VenkatJasti Because this churning of the project is usual and more has come down in Phase II means they are not successful, as you know like in our case also most of the projects are signed now. But at the same time, the new molecules are being added. I think it takes time to go to the next level. So this is an ongoing exercise, we cannot tell. Sometimes, one molecule can give you all the revenues than revenues from 100 active molecules.

SriramRathi Okay. And sir, the one molecule in phase III has been there for some time now and I think, we should get some clarity on that molecule whether that is moving ahead or not?

VenkatJasti Yes, I think that has taken three years and we are telling end of the year we will have some clarity.

SriramRathi And sir, is it possible to share the indication which indication is that molecule?

VenkatJasti Both are for cancer, Phase III molecules.

SriramRathi And sir secondly on the specialty chemicals, I think, we are expecting a flattish revenue next year also, which is in line with our earlier guidance. Like FY '18 will be the third year in a row of like flattish kind of revenue. Are we looking to add any other product to grow this business or some new strategy?

VenkatJasti Yes, we are working on few projects, but like the NCE business, this also takes time, it takes six to seven years before you can see any results. Some of them have just finished the basic R&D and going into the next level

SriramRathi And sir on the commercial sales. This Rs. 60 crore to Rs. 70 crore we are expecting only from one product this year?

VenkatJasti Yes, yes.

SriramRathi And it's going to be diabetes only?

VenkatJasti No, it's for RA.

SriramRathi Okay. It's RA, we have got the induction for FY '18?

VenkatJasti Right.

SriramRathi Okay. And for the diabetes, sir how?

VenkatJasti That's no, not much visibility as of today for this year.

SriramRathi Okay. So, I mean, the product is there in the market right, sir.

VenkatJasti Yes, product is there in the market, but there is no requirement from us as of today.

SriramRathi Okay. So, basically whatever they've taken in FY '17 probably that will continue?

VenkatJasti Yes.

SriramRathi Okay. And once that quantity gets exhausted with innovator then possibly we will see again the next quarter coming in?

VenkatJasti Possibly.

SriramRathi And sir in terms of CAPEX, what kind of CAPEX we should build now, I mean, in FY '18 and FY '19?

VenkatJasti Yes, last time we were telling you about roughly Rs. 100 crore for the additional block, which is going to be a specialty block which meets the occupational exposure limits four. And the same thingwill be Rs. 120 crore because we are adding a little bit more mechanization plus another Rs. 30 crore will be for the recurring CAPEX.

SriramRathi Okay. So, this Rs. 120 crore is for FY '18?

VenkatJasti Yes.

SriramRathi Okay. And that would include two new blocks?

VenkatJasti One block only.

SriramRathi One block only for pharma?

VenkatJasti Yes.

SriramRathi Yes, okay. And sir lastly just one thing sir, on the margin side this quarter if you look at it was 26.7% in Q4 and pre-R&D is around 37.5%. And if I compare to

previous three quarters, so it is lower. So does this mean basically that one is, of course, specialty chemical proportion is higher this quarter?

VenkatJasti Yes because as you know, out of the Rs175 sales, Rs.100 crore is specialty chemical.

SriramRathi Specialty chemicals, right.

VenkatJasti You know the margins are less than the CRAMS.

SriramRathi And sir, can this also imply that the commercials that we did in the first three quarters, total Rs. 34 crore that also had significantly higher margins?

VenkatJasti Naturally.

SriramRathi Okay. So, that means, this will be, in next year we will have Rs. 60 crore toRs. 70 crore commercial sales. So, ideally the margins should continue.

VenkatJasti Yes, we would be doing much better on the bottom line.

Moderator Thank you. Our next question is from the line of CyndrellaCarvalho of Dolat Capital. Please go ahead.

CyndrellaCarvalho Sir, first of all, just wanted to know that we have received highest volume ever for the specialty chemical. Are we seeing any kind of upward movement from the range of Rs. 225 crore to 230 crore?

VenkatJasti No, if you see the total number,it is more or less exactly same number,Rs. 224 crore plus.

CyndrellaCarvalho Yes, Rs. 224 crore.

VenkatJasti Yes, both are same. And similarly, last year also you would have seenwhat we did last quarter, aroundRs. 88 crore. So this is mainly the seasonal nature of the business. As a matter, we are telling you all the time, this is a peakedon sales. As a matter of fact, it may go down 2% to 5% year-on-year basis.

CyndrellaCarvalho Okay, sir. We hope it stays at around the same level at least.

VenkatJasti Yes, let us hope.

CyndrellaCarvalho Yes. And sir, in terms of we said that our base CRAM will grow by 10% to 15% that will be excluding the commercial sales expectation

VenkatJasti Yes.

CyndrellaCarvalho Okay. So then that should be a good year that we are looking forward to FY '18 in terms of revenue closing?

VenkatJasti Yes, if you see it, last year, we did not see any growth in base CRAMS. We also expected to do 10% to 15% growth, but it did not happen. Our growth is visible only because of the commercial product, that 9% growth is from year-on-year basis. And we are hopeful that growth of 10% to 15% of base CRAMS will happen, and we feel this will be a good year.

CyndrellaCarvalho Okay. And sir, in the base CRAM growth, are we seeing the upside largely because of the Phase III contribution that we are expecting from the one molecule or its overall growth that you are looking at?

VenkatJasti No, it's not only one molecule, we cannot say that. It is overall growth.

CyndrellaCarvalho Sir, of course, not but I'm just saying the major contribution..

VenkatJasti What I'm saying is we hope some of the molecules in comparison move from phase 1 toPhase II and Phase II to Phase III. And mostly, increase in valume happens in Phase II. In Phase III, it will be a little bit better than PhaseII.

CyndrellaCarvalho And sir, any color that you can help us provide in terms of the overall R&D queries that you're receiving. How is the query level? How is the overall CRAMS business that you are looking at right now? And how it should look for FY '18?

VenkatJasti There is not much change since last year, I mean, the growth is there and the consolidation is happening, the number of molecules they are working is coming down. But at the same time the traction is much better, since whatever they are trying, they are going all the way through various phases, provided if itssuccessful in each stage. And also the innovators are seeing the long-term players and making them as a preferred supplier. This year we became a preferred supplier to another multinational. Now we are a preferred supplier to five multinational companies. So hopefully, I mean, it doesn't give you the business on day one, but hopefully we'll have more opportunity to work with and more success based on the customer. That's the way it works.

CyndrellaCarvalho So that's the reason we are adding the one new block.

VenkatJasti See this the new block is not because of the capacity problem. New block is required because the standards they are asking us to improve, it's not necessarily a high potency area. But at the same time, the requirement for the EHSF mainly for the safety of the human being who is working in the environment. They want more or less closer atmosphere and no open handling,as this is known as OEL level 4. So with more automation, more mechanization is needed for the future projects. It is not that we have a project on hand for this addition, but without this future projects may not come up. So are doing this proactively.

CyndrellaCarvalho That's a good to know that sir. Sir, just lastly on the commercial quantities, there were no commercial supply this quarter, right?

VenkatJasti Yes, no, not yet.

CyndrellaCarvalho No, right. And the last question is actually on the SUVN-502. Sir, you guided a little slower SUVN-502 progress. Any particular reason or is just the enrollment which is slowing it down?

VenkatJasti If you see ours is a one of a kind trial in the sense this is the first ever triple combination. And that means we have to have a specific patient pool, for moderate Alzheimer's' disease. And theinclusion-exclusion criterion for our trial is very strict. We are not deviating our protocol requirements, what we have started with. That means patientshave to be diagnosed with moderate disease for more than a year. And the combination of those two drugs to which we are putting our medicationhas to be three months, for them to quality for our study. In addition until six months ago, there were a number of trials being conducted. So competing for the same

patient pool wasalso there. Now some of the trials are gone like Lundbeck and Johnson & Johnson. Which means, people from other studies can be eligible for enrollment into our study after a gap of six months. That's why the delay has happened. And this is the first time for us also. We expected to get all patients this year itself based on the target given by the CRO who is conducting the trial. But in the real world, it's not us who decides. It goes by the competition to enroll the patients and disease specificity also comes into picture.

Moderator Thank you. Our next question is from the line of Kartik Mehta of Canara Robeco. Please, go ahead.

Kartik Mehta Sir, just wanted to understand on the timeframe front on SUVN-502. You said the last enrollment would be done by end of FY18.

VenkatJasti No, not end of FY18, middle of FY19

Kartik Mehta So that would be FY19.

VenkatJasti Yes. I think you're talking about the calendar year. When I'm talking, I am talking about the financial year. I'm sorry.

Kartik Mehta So FY19 would be the year where you would come to know

VenkatJasti Yes.

Kartik Mehta Efficacy of the medicine.

VenkatJasti Yes. That's right.

Kartik Mehta So by middle of or end of the FY19, third or fourth quarter, we'll get to know?

VenkatJasti Yes.

Kartik Mehta Okay. And, sir, this is again getting delayed slightly compared to what we said last quarter as well?

VenkatJasti That's true.

Kartik Mehta And this Rs. 120 crore CAPEX what we are seeing is majorly on pharma side, niche molecule opportunity on case-to-case basis?

VenkatJasti This is the new requirements required by the big pharma. The reason is very clear. When they are working with the NCEs, they don't know the severity of the molecule on the long-term basis.

Kartik Mehta So it's kind of virtual pharma sort of arrangement or what?

VenkatJasti So what am I saying is since we don't know the what is the long-term safety aspect of it, we want to have a facility where you control all these things and have zero discharge, the beginning of vapor or powder or anything, everything is there known as glove-box technologies, OEL level 4, they call it. I don't have any products to put on today, but without that you may not get a new opportunity to work.

Kartik Mehta I got your message. So by what time you will be done with this CAPEX FY '18 end?

VenkatJasti No, our target is to do the FY '18 only and validation will be first quarter.

Kartik Mehta And what could be the revenue potential from this new CAPEX?

VenkatJasti This is not revenue based. Revenue, as I was telling you, if you don't have this facility, you don't get any revenue. I mean future products will come in, we don't know exactly what's the revenue of it as we start. But it will be a value-based product only, it will be, volumes maybe less in the beginning.

Kartik Mehta So it has to be high-margin products then?

VenkatJasti Yes, very much. So, I think, you will recover within no time. It's not a problem once the product comes in, when the product comes in is the question.

Kartik Mehta And this would be probably a large CAPEX after a long period of time on the core business apart from R&D spend what we have.

VenkatJasti That's true.

Kartik Mehta Okay. So there must be some confidence behind this CAPEX, and you would have some idea about that sort of engagement probably coming up?

VenkatJasti Yes, all the new compound that requires this basic infrastructure, especially when you're doing in the minus one stage.

Moderator Thank you. Our next question is from the line of CharulataGaidhani of Dalal and Broacha. Please go ahead.

CharulathaGaidhani Can you please repeat the numbers for the quarter and for the full year for CRAMS, specialty and one-time?

Venkatraman Sunder Yes. For the quarter, it is CRAMS 61.45 crore, specialty chemical Rs. 101.59 crore, contract technical services Rs. 11.96 crore. And for the full year CRAMS it is Rs. 261.91 crore, which includes Rs. 34 crore of commercial, Rs. 224 crore of specialty chemicals, and Rs. 53 crore of contract technical services.

CharulathaGaidhani How much is specialty?

Venkatraman Sunder **Rs.** 224 crore. Contract technical service, CTS is Rs. 53.23 crore.

CharulathaGaidhani Okay. Is there a big jump in the fourth quarter for CRAMS?

Venkatraman Sunder There is no jump in the fourth quarter in CRAMS. There is a big jump in the specialty chemicals. Third quarter, we had about Rs. 26.77 crore. Compared to that, this quarter it was Rs. 101.59 crore.. Similar to last year fourth quarter, what we had was Rs. 88 crore, which was the biggest. And this year, again, it was the biggest quarter for specialty chemicals.

VenkatJasti Because it's a seasonal that's why this quarter always -- this fourth quarter is going to be the highest.

CharulathaGaidhani Okay. But what would be kind of steady state kind of business in specialty?

VenkatJasti No, in the year out, it will be annualized. And this is the maximum you can expect next year also.

CharulathaGaidhani Okay. And my second question pertains to this OEL level 4 what is this pertaining to?

VenkatJasti This is occupational exposure level. This is for people who are working in the production area. So that means when you're talking about OEL4, there should not be any open operations. Everything is to be closed operation. That means glove box technologies, full suit, to mention a few. For that, you need to have a machinery which can take this glove box on top of that and also the automation and the mechanization in handling the powders, solvents, and the finished product, milling, finishing, everything has to be in a fully closed atmosphere. Nothing should be coming out.

CharulathaGaidhani Okay. So then that would involve investment from your side?

VenkatJasti Yes, that's the involvement for the regional infrastructure. It's costing close to Rs. 120 crore.

Moderator Thank you. Our next question is from the line of Ranvir Singh from Systematix Shares. Please, go ahead.

Ranvir Singh Sir, this is the new CAPEX we are talking about or beyond? At what site this is in, Vizag or Pashamylaram?

VenkatJasti It is in Pashamylaram.

Ranvir Singh And just thinking hypothetically, we have been guiding base CRAMS business for 10% to 15% growth. I think last year also that was your guidance. What I wanted to understand, in case you want to gear up and to achieve like 20%, 25% kind of growth, what we need to do? Is this investment-dependent? Or why we cannot scale it up further in terms of growth?

VenkatJasti First of all, it is not the generic business where we can try to achieve the sales. The second is the success of the molecules will give you more opportunity to make money and so on. The third, let me give you hypothetical thing, suppose today if Suven starts fresh to get a new project under the NCE CRAMS, I can assure you that I will not get any single project. Just because we are there for long-term, the reason why we are getting these businesses andwe are becoming the preferred supplier. As global lead the R&D is coming down and number of molecules is coming down, success is very less, attrition is very high, so the success not happening, then the realization will not happen to us. So that's why we are giving you only 10% to 15% normal growth and barring any success based things which we don't know yet. So I cannot give you any guarantee at this time, that's why we are saying this. There is nothing financially.We don't need to do anything as I said OEL level 4, we are building proactively, we are expecting this business should roll up in a 24 months' timeframe. Similarly, things will come in and we have enough time to put the resources financially whenever the new opportunity comes. It's not that we need to do it day one. So it's not the financial aspect of it, it's not the things that I can go and get some projects.

Ranvir Singh Okay. What I wonder because the other CRAMS players like DIVIS or see historically they've been making a very high growth?

VenkatJasti I'm not DIVIS, and I also not into the generic business and I'm not into the volume business. I'm in only in the NCE-based CRAMS, that's why this problem, whereas Suven bottom-line is growing, even though I cannot show much on the topline growth.

Ranvir Singh Second question was related to the commercial supplies, which we are expecting to better in next year. About the end products how is the market size of those products and this product and how it is doing in the market?

VenkatJasti It's doing good and it will be $1 billion drug soon. But it doesn't mean anything to us because unlike before there is no percentage of the API cost compared to the selling cost. The costs are very miniscule and the API cost itself is less than 5% nowadays, so out of that we are supplying only intermediates. So you cannot correlate how much business you will get, but the things are moving welland we hope to get Rs. 60 crore to Rs. 70 croreorders as of now.

Ranvir Singh No, so I was looking at a longer perspective. So for example in next two-three years, our run rate would be improving in proportion to their sales or we have fixed commitment to supply the product?

VenkatJasti Yes, there is a possibility to go up to Rs. 90 crore to Rs. 100 crore. I mean, their success also naturally gives us more business.

Ranvir Singh Fine. And how many other suppliers are there for this product?

VenkatJasti Two outside suppliers. They have three altogether.

Ranvir Singh Okay. But molecule was developed in-house with Suven.

VenkatJasti No. The thing is that nobody gives you the molecule. Molecule is theirs. We're only supplying a part of it.Intermediate means is a part, not the entire molecule.

Ranvir Singh And sir, that other product income for which we had exhibited batches in diabetic segment. So why this delay? Has the product not been rolled out or order has not come back to us?

VenkatJasti Order has not come back because they have enough stocks because their sales are not coming, as they had projected. The reason is, because in diabetic, there are so many molecules, unless the volumes both are formulary when it goes into the formulary. It has to prove to be much better. So I think it is taking time for them to go to the formulary outside, so that's a little bit delay. And also, they have taken more quantity, looks like, in the beginning itself.

Ranvir Singh And the question related to SUVN-502, whatever investment we have done and whatever we have to do, do you feel that more fund would be required to complete this or this is enough at this moment?

VenkatJasti No. What do you mean by more funds? We have kept about USD 20 million to 25 million. There may be an additional requirement of maybe USD 1 million or 2 million.

Ranvir Singh So that can be met through internal

VenkatJasti Yes, everything is done through internal only. As far as the R&D is concerned, we never borrow.

Moderator Thank you. Our next question is from the line of AmodJoshi from SPA Securities. Please, go ahead.

AmodJoshi Good afternoon, sir. I just have two questions. Sir, I was looking at the competitors of SUVN-502, and there was a molecule from GSK and from Lundbeck, right?

VenkatJasti Yes.

AmodJoshi Yes, sir. Can you just give me the differentiation, what positive sides our SUVN-502 has as opposed to the GSK and Lundbeck molecule, sir?

VenkatJasti Yes. For the starters, the target which we are engaging is 5-HT6 antagonist, right. Ours is a pure compound

AmodJoshi Target is exceptional right, sir.

VenkatJasti Attacking 5-HT6 only whereas the other two molecules have some engagement at 5-HT2A.

AmodJoshi Sir, when do you mean pure molecule. Can you explain it a bit little?

VenkatJasti There is a target which we have to engage, our molecule engages with the target which is 5-HT6 at 100%. Whereas other molecules binds 98% to 99% to the 5-HT6 and 1% to 2% to the 5-HT2A. Which may have in the long-term effect, I mean, there is a different efficacy profile and sometime it maybe synergistic, we don't know yet, that's the one reason. The second thing is the Lundbeck molecule does not work solo, it works only with the combination of the donepezil level whereas our molecule works solo. The third thing is the safety profile. Lundbeck has a 10% liver function abnormality in Phase II. And so far in Phase II 40% of our patients, which are 219 patients enrolled, not even a single serious adverse event has happened based on the molecule. So that is a biggest safety margin, which is the main reason why most of the compounds die down at the Phase II level. It is the main differentiator. The biggest differentiator again is in terms of the protocol designing. People, because there is no new drug available since 2003, they're using combination of two generic drugs, that is donepezil from Pfizer and also the memantine from the Forest Labs. On top of that, SUVN-502 is added, which is synergistic effect whereas the other two molecule as of today, based on available reports, works on top of donepezil only.

AmodJoshi Okay. So ours is a combination of three molecules?

VenkatJasti Yes. This is first ever three molecule clinical trial for Alzheimer's disease.

AmodJoshi Okay. And rest of the two molecules are donepezil plus that molecule only?

VenkatJasti Yes, as of today, they may come back after seeing our protocol, we don't know yet. And the other specialty is Phase II. So it's first ever biggest trial with 537 patients compared to about 440 patients with other trials so far, highest enrolled. So these are various differentiators. And the positive side is the main thing which is the safety. The second piece is the triple combination, first ever. These are the differentiators.

AmodJoshi Okay. Sir, and this molecule of ours, 502, is for mid-level Alzheimer's, right?

VenkatJasti Moderate Alzheimer's.

AmodJoshi So if you had any numbers regarding what is the market size of this moderate level Alzheimer's, if you could just give me any idea.

VenkatJasti It's huge. People would start mild and they graduate it to moderate as they live longer, as you know nowadays. They are otherwise hale and healthy, but only this problem will be there. So it will be about 8 million to 10 million in US alone.

AmodJoshi 8 to 10 million per year, right?

VenkatJasti Patients, not per year.

AmodJoshi 8 million to 10 million person.

VenkatJasti Patients, Yes.

AmodJoshi You're talking about the US numbers, right, sir?

VenkatJasti Yes. We don't know the other numbers.

AmodJoshi Yes. Okay, I understand. And sir, regarding the capex that we did at Vizag site, we did a CAPEX of around Rs. 50 crore right in the FY17 for Vizag?

VenkatJasti What is that again?

AmodJoshi Sir, the CAPEX for the Vizag site was around Rs. 50 crore, right?

VenkatJasti No, nothing is there. It's already done more than a year ago.

AmodJoshi The current CAPEX Rs. 100 crore to Rs. 120 crore is for Pashamylaram..

VenkatJasti Pashamylaram for one block.

Moderator Thank you. Our next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please, go ahead.

Chirag Dagli Sir, this depreciation number that has come in the fourth quarter, should we extrapolate this for FY18 and beyond, as in you've done about Rs. 7.2 crore. So will it be in the ballpark of Rs. 28 crore?

Venkatraman Sunder It'll be around Rs. 25 crore to Rs. 26 crore.

Chirag Dagli And sir, in terms of the R&D spend on the non-SUVN-502 piece, how do you see this going up or down over the next three years?

VenkatJasti It hasbeen in the same range as this year, merely Rs. 3 to 4 crore this year. That may be positive side only, I mean, higher side.

Chirag Dagli In FY18? Right. And, so on the tax rate, so if you look at the consolidated and the standalone numbers, effectively, whatever R&D you are doing on the subsidiary you're not getting any tax benefit on this. So why to lose this tax benefit, sir?

VenkatJasti Yes, it's written up.

Venkatraman Sunder No, the thing is, let's say, as far as the US, it is done in a US and only under consolidation it comes in as a kind of R&D expenditure into the main account otherwise on a standalone, yes, it is not treated as expenditure here, hence you don't get a tax benefit. I think here also the weighted reduction now it's going off, next year. So, which means even if that would have been there also, for the expenditure, then outside India, still that eligibility is not there for tax benefit. Yes, you are right if 100% of the expenditure what you would have despite, you would have spent in India, we would have got benefit but clinical trials we cannot do it in India.

Chirag Dagli So, hypothetically when this molecule gets out licensed, you will get to set this off against the licensing income that you will add that time?

Venkatraman Sunder That's correct.

Chirag Dagli So all the IP resides in this US companies, all the IP that you are creating –

VenkatJasti No, IP remains here in main company. We are out licensing this to the subsidiary on a transfer pricing basis.

Venkatraman Sunder On a limited basis, it has been transferred to Suven, Inc. for the conduct of clinical development for Phase II program and look for opportunity.

Chirag Dagli So sir, this will become slightly, so when you out license this you will have to pay tax in the US as well, right?

VenkatJasti Yes. You have to pay. Whether it is resides here or there, you have to pay the tax period, there are no second thoughts on it.

Moderator Thank you. Our next question is from the line of Himanshu Shah of Unlimited Potentialities. Please go ahead.

Himanshu Shah Sir, we had a CAPEX in a plant of Rs. 50 crore, which was more than a year ago, as you said. And this was in a plant which was supposed to be unmanned, not to be touched by a human being as such over there.

VenkatJasti No, we have given a guidance last year that we'll be spending about Rs. 50 crore for this future CAPEX, which we have started only in this quarter, that's now increased to Rs. 120 crore because of the requirements of various customers.

Himanshu Shah It is that same CAPEX, that you are referring?

VenkatJasti Yes, we have not spent this CAPEX, we have envisagedbecause it's a new requirement, it's new guidelines, and we are collecting the information from the various people who needs this facility. So we had not started the work until this quarter.

Himanshu Shah Okay. So that same Rs. 50 was taken forward to Rs. 120 crore.

VenkatJasti 120, yes.

Himanshu Shah Right. And sir, any updates on the molecules that are coming into Phase II trials or are in like from Phase I to Phase II?

VenkatJasti In the CRAMS side of the business?

Himanshu Shah Our molecule, sir.

VenkatJasti Our molecule, yes. 502 is undergoing Phase II and 3031 has finished Phase I, finished the long-term safety toxicology, now under preparation for the submission to the USFDA. We're in the protocol development and all other requirements are going on. So in the next six months to nine months, it will be into the Phase II.

Himanshu Shah And sir, what are the prospects for that molecule as such, sir?

VenkatJasti I mean, prospects are same as this one. It's for an unmet medical need, but it has to go all the way again, six months trial. And you know that how much time it is taking 502. So it will also take that much time. I mean, there will not be any shortcuts in this business. Especially in the clinical trials, they need to involve the patients with the disease profile.

Moderator Thank you. Our next question is from the line of Amit Sahuji of A.D. Sahuji& Associates. Please, go ahead.

Amit Sahuji Most of my questions are already discussed. But last question I have, is how many patents do we have right now?

Venkatraman Sunder We have the global number of patents, which is about 771, plus the new one granted. Probably the updates will be given by Mr. Jasti.

VenkatJasti Yes, we have more than 771 product patents.

Amit Sahuji 771 product patents. Any plan to monetize these patents?

VenkatJasti We would like to, if possible, if somebody uses. In this business, in the product patents unless it is proven in the clinical trials, nothing can be monetized.

Amit Sahuji Okay. So in the near future we don't expect anything from this patent?

VenkatJasti FY '19 first opportunity.

Amit Sahuji FY '19 is the first opportunity in form of SUVN-502?

VenkatJasti Yes.

Amit Sahuji If it is successful.

Moderator Thank you. Our next question is a follow-up from the line of HarishaKakera of B&K Securities. Please, go ahead.

HarishaKakera But I think my questions are answered. Just wanted to know like you have a good client base already, are you planning to add any new clients to the CRAMS business?

VenkatJasti Yes. We are always on the lookout, but as you know we are engaged with almost all the big pharma and only the small biotechs we are taking as new customers and business is very small from them, yes, we have total of 70 customers.

Moderator Thank you. We will move to the next question. It's from the line of B. T. Vaidyanathan, an Individual Investor. Please go ahead.

B. T. Vaidyanathan Sir, my question to you is based on SUVN-502 success only then will you move the 3031 molecule up this one or will you be starting the Phase II trials for this particular molecule before you even get the double blind study details of SUVN-502?

VenkatJasti I think if you've heard my comments earlier, the first opportunity, I mean, getting the data will be in the fiscal '19 for SUVN-502. And when it comes to 3031, I have mentioned, we are in the preparation for the Phase II submission, which will be six to nine months from now. That means irrespective of what's happening one year ahead we are going to be in the Phase II for the 3031. So we don't wait for the other molecules success to become the next molecule, that's not the way it works. You have to move your compounds as and when they are ready to go into whatever stage they are supposed to be because it is IP-protected and you don't want to lose the time on the IP side of it, but you will move the compounds into the next stage as and when they are ready.

B. T. Vaidyanathan And the budgeting for this particular molecules are 3031 where does it come from

Venkatraman Sunder Internal accruals.

B. T. Vaidyanathan Internal accruals?

Venkatraman Sunder Yes.

B. T. Vaidyanathan I have one another question because I was just going through we have Axovant, Alzheimer molecule and ANAVEX Phase II. I think Axovant is in Phase III and ANAVEX is in Phase II. How different are they from our molecule, sir?

VenkatJasti I think I have clearly mentioned few minutes ago for another customer that ours is a pure compound compared to the other one as a liability, I should not say liability. I have the engagement as to the subtypes of the targets which we are engaged in. And the toxicity levels, I mean, safety aspects, we have the highest safety of all the three molecules comparatively. And ours will be the excellent molecule, is undergoing study Phase III for Lewy body dementia whereas ours is a Alzheimer's. I think they all also going to Alzheimer's soon. And ours is a triple combination study compared to their, a double combination study. These are the various differentiations.

B. T. Vaidyanathan There is one last question.In case there is an interest shown on SUVN-502 prior to the double-blind study coming in, are you willing to sell it or something like that? Have you got some project in mind?

VenkatJasti Yes, certainly. If a real strategic opportunity comes in and if the value proposition is there, yes, certainly we'll do it.

B. T. Vaidyanathan Is there anything at the table? Have any companies shown any type of interest in this SUVN-502 as of now, sir?

VenkatJasti There are so many companies showing interest, but it doesn't mean they want to buy at this stage. Everybody wants to have a Phase II data, not only our compound, any other compound, especially in this central nervous system disease. So only after the first time human patient data comes out, which is Phase II proof of

trial, then only anybody would want to out-license it until that time, it's only a due diligence that keep into their knowledge and keep it like that. And only after the Phase II results are out, if the results are good, yes, you will have a number of people to out-license it fromus.

Moderator That was the last question. Would you like to add a few closing comments?

VenkatJasti Yes. Thanks everyone for dialing in and I have given you the present situation and future guidance already. I have to do better than the last yearand the indications looks also in the positive directions, only time will tell but things are moving in the right direction in all aspects compared to last year and hope to catch up with you next time. Thank you.

Moderator Thank you members of the management. 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.