Suven Life Sciences Limited

Investor/Analyst Conference Call Transcript
November 13, 2013

Moderator: Ladies and gentlemen, good day and welcome to the Suven Life Sciences Limited Q2 and H1FY14 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you Sir.

Gavin Desa: Thank you Myron, and good afternoon everyone and thank you for joining us on this call to discuss Suven Life Sciences' financial performance for the quarter and half year of FY2014. We have with us Mr. Venkat Jasti – the Chairman and CEO; Mr. Venkatraman Sunder – VP, Corporate Affairs; and Mr. Subba Rao – General Manager, Finance and Accounts.

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 financial performance have already been e-mailed to you earlier. I now invite Mr. Venkat Jasti to provide some perspective on performance, post which we will enter Q&As. Sir, over to you.

Venkat Jasti: Thank you, Gavin, and thank you ladies and gentlemen for logging into this Earnings Conference Call of Suven Life Sciences for the half year results. Many of you must have met me in previous occasions and you might have known about our business model which we have been talking about, the CRAMS business model which we have started way back in 1995, and also since that time we have done more than 650 projects, and now we have 90 active projects. Even though there are no great successes in these years, we have continued to pursue CRAMS business, which is our bread and butter and we will continue to focus on this segment vehemently, and luckily for us this half year has been very good because of the commercialization

of three of the intermediates that are being supplied by us to three innovators, and which they have taken it for launch. These three molecules are going into launch mode. So we have supplied and will be supplying these quantities for the launch mode. We hope to continue this for the current quarter also; some part of it and the fourth quarter will become a normal CRAMS business which we are doing. I will leave it here, and we will take the questions.

Moderator: Thank you very much Sir. Participants, we will now begin the question-and-answer session. First question we will take from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: . Are all the three molecules in commercial stage or are they are still in Phase-3?

Venkat Jasti: When I say it is a launch quantities that means the Phase-3 is over, the results are good, they are preparing to launch the product, for which they have placed the orders that means this is becoming a commercial product, but there will be a gap, because we are supplying intermediates. Similarly, the customer may be getting some other intermediates for the same API from some other customers, all this will be assembled and then the API is manufactured. then after that Formulations, either in a capsule or tablet will be formulated while they are preparing to file the NDA. So, all this process will take one year only after the Phase-3 clinical trials succeed that means it is a commercial product, and this is a pre-launch quantities.

Sachin Kasera: Are we done with the pre-launch quantities or that process is still continuing?

Venkat Jasti: As I said some of them will be continuing in third quarter also.

Sachin Kasera: So fourth quarter we do not see much ?

Venkat Jasti: There is nothing in the fourth quarter, as of now.

Sachin Kasera: Apart from these three, are there any other products, which are under Phase-3?

Venkat Jasti: Whatever Phase-3 molecules we have, all of them have gone into launch mode, but there are a couple of things that may graduate in the next 6 months from Phase-2 to Phase-3, some indications are there, but as of now there is no guarantee.

Sachin Kasera: Could you give us something on the CAPEX program for the next 12 to 15 months and are we looking at any type of fund raising to finance the same?

Venkat Jasti: Yes, the CAPEX program is mainly for the expansion of the capacities in the Vizag Greenfield site to create the facilities in the Pharma City that is for CRAMS only, for that we have already procured the limits from State Bank of India to the tune of Rs.45 crore, the initial investment will be about Rs.100-110 crore, the rest of them will be our internal accruals. That is the CAPEX as far as this is concerned. We have a molecule SUVN-502 for

Alzheimer, which is undergoing Phase -1bin USA under US IND. That will move into sometime in the second quarter of next year into the Phase--2a proof-of-concept. As of now, we have not found any suitor for that, since big pharma is risk averse and everybody wants to see proof-of-concept candidates only, then they do not mind paying anything here. So for that we may have to raise funds and that will be for the Phase-2a, which is the tune of $20 million.

Sachin Kasera: Are we looking at rights issue or are we still looking at the various options?

Venkat Jasti: We have not finalized the model, but it will not be the rights issue.

Sachin Kasera: When will we come to know regarding the commercial success of these three molecules which we have done pre-commercial?

Venkat Jasti: This will be in the last quarter of the next year that is January of 2015.

Sachin Kasera: Is it fair to assume that after December quarter is over, for the next 12 months the supply for these three molecules are not going to be anything significant?

Venkat Jasti: For 1 year to 1.5 years, there will not be anything. When we were doing the launch model, we supplied to fill in the pharmacies, usually they take more quantities. Without knowing the data from the market and without knowing how much they need, we will be supplying a little bit more quantity at this time, almost two times the quantity, but the repeat order will happen only after the launch has taken place.

Sachin Kasera: Does the pricing remain same?

Venkat Jasti: As the volumes go down, the pricing also goes down. Being in the supply chain for a long time, supplying 1 kg, 10 kgs, 100 kgs, we get the first time pre launch quantities, it will be R&D pricing. So, one-third of the pricing will be cut down when we have the repeat orders.

Moderator: Thank you. The next question is from Deepak Agarwal from Impetus Advisors. Please go ahead.

Deepak Agarwal: The third molecule for which we have sold the commercial quantity in the last quarter, which had moved from Phase-2 to Phase-3 in Q1?

Venkat Jasti: All the three molecules are in Phase-3 from more than 2.5 years.

Deepak Agarwal: In our release post Q1 results, we had mentioned that one molecule had moved from Phase-1 to Phase-2, and one had moved from Phase-2 to Phase-3, so one molecule that moved to Phase-3 is this the same molecule? Then we must be having one more molecule in Phase-3?

Venkat Jasti: Molecule that moves from Phase-2 to Phase-3 cannot be commercially launched within a matter of three months.

Deepak Agarwal: Do we have one molecule in Phase 3?

Venkat Jasti: Three molecules were in the Phase-3, which are now in the pre-launch mode.

Deepak Agarwal: Do we have any molecule in Phase-3 now?

Venkat Jasti: These are all commercial; there is nothing in the Phase-3 now.

Deepak Agarwal: What happened to the molecule which moved to Phase-3 in the last quarter, which you had mentioned in the release?

Venkatraman Sunder We have total 90 projects of which 46 are in Phase-1, and 41 in Phase-2, and 3 in Phase-3. These three which are in Phase-3 are now commercial launch quantity. We have not commercialized, the commercialization will happen sometime next year. We have supplied the large quantity.

Moderator: The next question is from Saurav Jain from Sushil Finance. Please go ahead.

Saurav Jain: My question is, for book keeping purpose, the contribution to the revenues from the commercialization of these 3 products in order to understand the steady run rate of top line which we can sustain in upcoming quarters?

Venkat Jasti: The revenue from these commercialized quantities is about Rs.100 crore for both the quarters put together. Out of that, 50% is the contribution from these Rs.100 crore.

Saurav Jain: As you mentioned there will nothing from this in the Q4, so what could be the steady top line on a quarterly basis?

Venkat Jasti: Normally our growth is upto Rs.300-320 crore. But for the half quarter, we have added Rs.160 crore plus Rs.100 crore which equals to Rs. 260 crore of the new business and we expect the next two quarters put together giving roughly about another Rs. 200 crore, so that will give you Rs. 460-450 crore in that range for topline.

Saurav Jain: Could you please give us a breakup of our R&D expenses in terms of our own NCEs and towards the clients? Why have the tax expenses been so high despite such high R&D expenditure?

Venkatraman Sunder The tax expenditure goes up because the bottom line itself has gone up from Rs.30 crore level to almost Rs.75 crore. On top of it, the R&D expenditure has only gone up by another Rs.17 crore from Rs.8 crore level; it is about Rs.25-26 crore. No matter whatever you get, Rs.35 crore to be deduction, still you end up with MAT a little above that. That is the reason the tax expenses have gone up.

Saurav Jain: What is the breakup in terms of our own NCEs and R&D towards the client?

Venkat Jasti: On the R&D expenditure, it is 80% towards NCEs and 20% towards the contract research.

Saurav Jain: My next question is how are we placed in terms of capacities, like if we receive bulk orders for any of these recently commercialized or pre-launched products, so would we be able to manage after this Vizag facility for these orders, is there any possibility of capacity constraints?

Venkat Jasti: One gets an advance notice of one year. They will not give you any guarantees. As of now, I have 570 kL capacity and with 230 kL in the first phase, we are constructing at Vizag that will give 800 m3. So capacity wise, we will never have any problems and any commercialization is not at all a problem because it will take 2 to 3 months to 4 months max for each product to be made. Because these are the high potent compounds, it is not like 1000s of MT that we need to do. These are the new chemical entities, if you are supplying about 10 to 15 MT, or 20 MT that is the commercial launch so we do not have any problems as far as the capacity is concerned.

Saurav Jain: Provide us some color with the Nishtaa Pharma, what are the prospects going forward for the same?

Venkat Jasti: Yes that is a part of the Formulations development, which is needed for the Generics and the NCEs for both internal and external. We are working on that and we have also added additional lab space which is there for our biopharma lab. This is for the R&D center and the development center on the chemical trials, supply and manufacturing capacity.

Saurav Jain: We will be having quite good cash flow, going through the last two quarters and in the CAPEX plans we have SUVN-502 that would be around Rs.100 crore and Vizag will be Rs.120 crore, so what would be our debt plans for the same? Like we will be entering 502 in the Phase-2A as you said in the second quarter of next year, so what would be the expenses for the next one year?

Venkat Jasti: As far as the debt is concerned, we only take the debt for the capacity creations. We will never take debt for the R&D expenses. Rs.45 crore is already sanctioned by the State Bank of India; the rest of the Rs.55 crore to Rs.60 crore will be from the internal accruals for the Vizag plant. As far as the clinical trial is concerned, which is to the tune of more than Rs.120 crore will start in second quarter of next year. So, we will be looking to get some funding from outside, not as a debt.

Moderator: The next question is from Ranvir Singh from Sharekhan. Please go ahead.

Ranvir Singh: About Eli Lilly's collaboration which we had earlier in 2008 what happened to that molecule, are we already out of this or the collaboration is still ongoing?

Venkat Jasti: That collaboration is not ongoing because 2 years ago, at the stage of handing over at the GLP talk level, the business model and planning, Lilly has changed. After 2009, a lot of people have shut down the number of programs that they are doing and the number of disease categories they are in. In the reapportionment, they stopped this development and it is not there anymore.

Ranvir Singh: Have we got any milestone payment?

Venkat Jasti: Only when they have taken the Phase-1 compound, they will give the milestone. They have stopped things and thus they cannot give any milestone. We have stopped just six months before we are supposed to get the milestone.

Ranvir Singh: The effective tax rate comes to around 31% in this quarter. So even if the top line has increased that effective tax rate itself has gone up significantly despite R&D expenditure has been higher in this quarter.

Venkatraman Sunder: Earlier we used to have about almost 20% of our revenue towards R&D expenditure, which 35% would be where you get about 200% weighted deduction. This gives a good cushion for us to get the tax benefit and most of the time, we were just under MAT. Now we are beyond that; that is the reason the average rate has gone up. This year it will be on a very high affect.

Moderator: The next question is from Parth Mehta from ICICI. Please go ahead.

Parth Mehta: You have indicated that we have a steady run rate of about Rs.400-450 crore of top line in the second half, after which the 3 molecules, which are being sold after Phase-3 trial and before commercialization, so what if we are not selling those in the fourth quarter and going into 2015, how do we see our top line going forward because we do not have these 3 molecules, we do not have any commercialization, and we do not even have SUVN-502 going forward till January 2015 or the next quarter?

Venkat Jasti: Rs. 320 crore is the normal growth we could have achieved in the whole of '13-14. Rs.450-460 crore the difference is the new product pre-launches. Based on Rs.320 crore; for '14-15, Rs.380-400 crore would be our top line, for '15-16 Rs.450-460 crore would be our top line.

Parth Mehta: In FY15, only Rs.400-450 crore of topline, will that be flattish?

Venkat Jasti: It is coming back to whatever we are selling now, because there is no commercialization. Rs.130-140 crore is going to be the additional product that we are selling this year because of the launch.

Parth Mehta: Will this be a one-time thing for '13-14?

Venkat Jasti: As of now, it is a one-time thing. The possibility of getting a repeat order is in '15-16, which we have not figured in Rs.450-460 crore of top line.

Parth Mehta: Are we not looking at any other molecules other than these 3 coming from Phase-2 to Phase-3 trials and pre-commercialization stage for 14-15?

Venkat Jasti: No visibility yet.

Parth Mehta: Will you come with a press release for the same as and when it comes out?

Venkat Jasti: Certainly.

Parth Mehta: Are there any problems that we are facing in clinical research trials because the government has come up with some new rules and regulations which have kind of stalled some of the 160 odd clinical trials that were happening in the country, is some kind of the new regulations affecting us for CRAMS and other clinical trials or are we fine with it?

Venkat Jasti: Those clinical trials are more or less for those molecules which are not in our portfolio. It is not affecting us directly in our NCE pipeline, because ours is an Alzheimer's thing and we are not going to do any clinical trial in India because the population and business is mainly in the USA. The total Phase-2a will be done in USA, only Phase-1a- and 1b were done in India but because of the timeline, we are paying double the amount of money and we are doing it in USA now. We are spending a little bit more money, but we do not have any other problem.

Parth Mehta: Are we looking at about Rs.650-700 crore of turnover top line this year. Are we going to maintain the margins at 45%?

Venkat Jasti: Rs.450-460 crore is for the total year that means Rs.260 crore is up to 6 months, we are saying Rs.200 crore for the next two quarters put together that is Rs.450 to 460 crore.

Parth Mehta: Will we be able to maintain the margins as well?

Venkat Jasti: Except for the fourth quarter, we are going to maintain the margins but it will come down in the fourth quarter.

Moderator: The next question is from the line of Umesh Gupta from Reliance Wealth. Please go ahead.

Umesh Gupta: You have done about Rs.50-55 crore from the pre-launch products. So if one were to remove that then a normal turnover from the other operations are about Rs.100 crore on a quarterly basis. So if you are going to do another supply of prelaunch in Q3, one would assume that you will do another Rs.150-odd crore in Q3, and then Q4 could be normal of about Rs.100-odd crore, so you should do about another Rs.250 crore in the second half?

Venkat Jasti: That is pure mathematics, but it is not practical. There is some spillage into this quarter. I did not say it is going to be Rs.150 crore. It is roughly Rs.100 crore each, but it is only Rs.80 crore for each quarter, so I put Rs.200 crore inclusive of this additional quantity, so it will not be more than that.

Umesh Gupta: Once this prelaunch business gets removed; the normal operation can only do about Rs.50-60 odd crore on the top line?

Venkat Jasti: The additional quantity which we are delivering is going to be less in this quarter and normally it is around Rs.80 crore for each quarter. So, talking about Rs.200 crore, 40 crore belongs to the additional quantity and Rs.160 crore belongs to the normal sales.

Umesh Gupta: Rs.160 crore of the normal sales is for what period?

Venkat Jasti: Rs.160 crore is for the next two quarters put together and Rs.40 crore is the additional, as of now.

Umesh Gupta: In Q3, will the prelaunch quantity be about Rs.40 odd crore?

Venkat Jasti: There will not be anything like Rs.80 crore equally distributed in four quarters. For some quarters it may be Rs.60 crore and for some quarters it may be Rs.90 crore. In this quarter, the normal quantities may be less and the additional quantities may be more. In the next quarter, normal quantities may be more. So there is a difference but one cannot assume that we are only doing Rs.55 crore per quarter. It is Rs.80 crore on an average per quarter on the normal CRAMS business.

Moderator: The next question is from Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Regarding R&D expenditure, we have done at around 12% approximately to sales and usually every quarter we see around Rs.8-9 crore and this year it is around Rs.18 crore. So, are there any guidelines for our Company for this R&D expenditure or how we go about it?

Venkat Jasti: Yes, this year the total will be Rs.40-45 crore. Next year it will be around Rs.60-65 crore, other than the Phase-2a clinical development, because we are moving 3 products into the IND stage next year.

Sanjay Shah: Additional R&D will be required for that?

Venkat Jasti: Yes.

Sanjay Shah: When can we see this Vizag getting commercial production?

Venkat Jasti: The end of 2014 will be the starting of a trial run, and certainly the first quarter of '15-16 will be for the commercial quantities.

Moderator: The next question is from Bhagwan Chaudhary from India Nivesh. Please go ahead.

B Chaudhary: Of the three products we are talking of, are these for the three different customers or for the same customer?

Venkat Jasti: Yes, these are three different customers; one is a US customer, two are European customers.

B Chaudhary: The products have completed Phase-3 trials, all the three customers, and they have filed NDA for the products?

Venkat Jasti: They are in the final stages of filing NDA

B Chaudhary: Are they in the process of filing or have filed?

Venkat Jasti: No, they are in the process of filing.

B Chaudhary: All the three?

Venkat Jasti: Yes.

B Chaudhary: What kind of products these are in which Therapeutic segments?

Venkat Jasti: Out of the three products, one is for Diabetes, one is for Depression and the third one is for Inflammation; the bulk of the activity will be coming from the Inflammation, Pain Therapeutics, Arthritis, etc.

B Chaudhary: Will you be the sole supplier for three?

Venkat Jasti: I will be one of the three suppliers for these intermediates.

B Chaudhary: Do you have enough capacity to commercialize these products?

Venkat Jasti: Yes, we have done the prelaunch quantities, which are usually more than two times the regular requirements they will have.

B Chaudhary: If after the commercialization the product is picking up, do you have the higher volume at that point of time?

Venkat Jasti: The supply that we have made is two times more than the regular quantity. Usually, if 2 kilos are taken on day one, the repeat order will only be for 1 kilo. They take 2 kilos because when they are launching for the first time, there is no product in the market, they have to base load the pharmacies all over the world. Hence, they take more quantities. If it is going the normal way, we will be supplying 1 kilo. If there are very good sales, they may come up to 2 kilos. We already produced 2 kilos. There is no question of not having any capacity.

B Chaudhary: Are these three customers planning to launch it in US market or in European market, as you said two are the European companies, one is in US?

Venkat Jasti: Right now, two companies are marketing in Europe only. The US customer is marketing in US only. Eventually, they will go into the other territories. So, it will be taking a year or two, which is not known to us yet.

B Chaudhary: Thirdly, you said that you are planning for Rs.150 crore of the CAPEX. Can you please come again on that topic and how are you going to fund that?

Venkat Jasti: I never said Rs.150 crore of CAPEX. It is for this Vizag plant for Capacity enhancement that is for Rs.100-110 crore max and that we have secured Rs.45 crore already from the SBI, and the rest of them will be internal accruals. Rs.150 crore for the clinical development of SUVN-502 will be next year in Q2 timeframe for which we need to raise funds, not debt.

B Chaudhary: Which one product for the clinical trials?

Venkat Jasti: SUVN-502 is our own in-house molecule for Alzheimer disease, which is going through Phase-1b- in USA, which will go into Phase-2a- proof-of-concept in patients next year sometime in the second quarter.

B Chaudhary: My last question pertains to the same molecule, at what level you want to carry on this product?

Venkat Jasti: We would like to monetize this product at the preclinical level if somebody is footing the bill. Because of the risk averse of the big pharma, everybody wants to see the efficacy not in the animals, not in the safety of the humans, but they want to see the efficacy in the patients. So we need to necessarily go into the patients, unless somebody comes in and does the clinical trials as well. The way the monetization will happen, If everything goes well, sometime in 2016 and 2017, after the Phase-2a is done.

B Chaudhary: What may be the estimated value?

Venkat Jasti: One example, in July of this year, for the similar target, one compound from a Danish company which has finished the proof-of-concept that means they are two years ahead of us, has fetched $150 million upfront, $675 million milestones, and double digit royalties if it goes into the market and sales happens.

B Chaudhary: Do you have any other products than this, Alzheimer?

Venkat Jasti: Yes we have three other products, which are in the pipeline. They are, one for Depression, one for the Alzheimer's, and one for Schizophrenia.

B Chaudhary: Will Rs.150 crore of the R&D expenditure flow through your P&L only or how?

Venkat Jasti: Yes, it will go through the P&L only, as of now.

Moderator: The next question is from Mithun Soni from Geecee Investments. Please go ahead.

Mithun Soni: In terms of the sales, what you said for the second half as well as for the three molecules, would you be able to share what would be the contribution margin for the first half from these Rs.100 crore of business?

Venkat Jasti: 50%.

Mithun Soni: 50% of the gross contribution you are saying or 50% of the sales as a contribution?

Venkat Jasti: Net.

Mithun Soni: 50% of the net is coming from these two products?

Venkat Jasti: Right.

Mithun Soni: During the quarter, the operating cost by itself has gone up. How should we see this as a run rate going forward once this normalizes?

Venkat Jasti: Until last year, the FDA did not charge this kind of facility fees. Now for each unit they are going to charge Rs.1.2 crore or so, so that is added in this section that is why you see the sales expenditure going up.

Mithun Soni: Now this should continue going forward?

Venkat Jasti: Yes, not only for me but for everybody, it will continue because if it is a formulation thing, it is about $300,000 which comes to about Rs.1.8 crore every year.

Mithun Soni: With respect to R&D, we will be spending about Rs.40-45 crore this year and about Rs.60-65 crore next year. Now this is the same part of the clinical trial or this is going to be separate from the SUVN-502?

Venkat Jasti: It has nothing to do with SUVN-502. The expenditure we are expecting as SUVN-502 Ib, some pricing is there, but Phase-2a, pricing is not taken in this, Rs.45 or 60 crore, this is a normal expenditure of GLP Tox and doing up to Phase-1.

Mithun Soni: For what will be the expense of Rs.120 odd crore?

Venkat Jasti: For Phase-2a.

Mithun Soni: Are they two different expenses?

Venkat Jasti: Those are not differed expenses. We have to get funding for that, but it will be written off on the balance sheet anyway over a period of more than 2.5 years.

Mithun Soni: Out of the 90 active projects, is 42 in Phase-2?

Venkat Jasti: 41 in Phase-2

Mithun Soni: Are you expecting any of these to come into Phase-3 in the next one or two years?

Venkat Jasti: We see some visibility on two other molecules.

Mithun Soni: Two other molecules, the one which you said is Depression and Schizophrenia is on the same thing?

Venkat Jasti: For these two we do not know the indication yet.

Mithun Soni: So once they come you are expecting this to come in this year or next year, what is the timeframe?

Venkat Jasti: I see some visibility, but there is no guarantee, because it has to pass, they said the interim results are good, but the final results they have to come in the clinical trials.

Mithun Soni: For the first half, how much CAPEX we have done and how much we would be doing for the second half?

V Sunder: It is about Rs.18 crore for the first half year.

Moderator: We will move on to the next question from the line of Ashish Rathi from Emkay Global. Please go ahead.

Ashish Rathi: My question is on the Alzheimer molecule which we have. It is a very difficult phase to be and large pharma guys like Pfizer, Elan, and J&J together they did a trial for Bapineuzumab and Lilly for Solanezumab and the data for all of them was disappointing. Firstly what is the difference in approach for our cure? Are we working on like the beta amyloid carriers or the Tau reagents, what is our approach here?

Venkat Jasti: We are not into the disease modifying category. In disease modifying category, everybody has earned a billion dollar each from J&J to Pfizers, and that was the flavor of the day for the last two to three years, but now the failures are many and now they are getting back to the symptomatic treatment. Our aim is to go into the symptomatic treatment from the beginning and we are in that, and the first molecule which is in the symptomatic treatment that is a Danish company molecule has successfully finished Phase-2a and they have fetched $150 million upfront payment; $675 million dollars for milestones and royalties, they have licensed this to a Japanese company, and we are second in the line. We need to finish the Phase-2a to get the monetization.

Ashish Rathi: Is it something like what we have already symptomatic molecules like Donepezil, etc. in the market or better forms of?

Venkat Jasti: Yes, it is a similar kind of a molecule. Donepezil works 8 to 9 months in the patient. After that the effect does not exist. Donepezil stops the degradation of the molecule which we give for a while so that the efficacy will stay there for more time, whereas in our molecule the Acetylcholine is the one which is produced in abundance, so it will give you more concentration, so the efficacy will be for more time. In addition, our protocol calls for the add-on therapy using Donepezil as the base, because Donepezil is now generic. Thus, we can get more patients into the clinical trial enrollment. The duration for which our molecule works is three to four years rather than 8 to 12 months.

Ashish Rathi: Do we see interest from other players in acquiring our Company? Do we get those proposals at any point in time?

Venkat Jasti: Nobody has come to us so far. They did not come even to buy the molecule which is necessary.

Moderator: The next question is from Veena Patel from iWealth Management. Please go ahead.

Veena Patel: How much revenue amount was obtained from the three molecules in the first half of FY14?

Venkat Jasti: Revenue is about Rs.100 crore.

Veena Patel: And how much are the expenses in Q3?

Venkat Jasti: Rs.35-40 crore.

Veena Patel: On our PAT, what was the contribution from these three molecules?

Venkat Jasti: Rs.54 crore.

Veena Patel: What was the top line number that you were quoting for FY14 and FY15?

Venkat Jasti: For FY14, it will be Rs.450-460 crore, which includes about Rs.130-140 crore of the additional revenue due to these three molecules, for FY'14-15 it will be Rs.380-400 crore, for FY'15-16 it will be Rs.450-460 crore.

Moderator: The next question is from Nisarg Vakharia from Lucky Investment Managers. Please go ahead.

Nisarg Vakharia: This is a follow-up to one of the earlier questions, wherein you had mentioned that these three drugs, the European customers only launch in Europe and the US has only in US, so which would mean that in the next 12 months if any of these three products were to be for other territories like US or Europe, depending on the product, there could be more prelaunch other than what we are building in as of now?

Venkat Jasti: Possible, but I do not see that forecast coming as of now.

Nisarg Vakharia: Because for any large US or European company both the markets are fairly large and attractive,

Venkat Jasti: Some of the companies have launched only in Europe and they did not even launch in USA for four years. The reasons are unknown and also the regulations that are pertaining to the particular drug, similarly vice versa; some people have launched in US and not launched in Europe for three to four years. So, they would like to launch both in Europe and Japan, and the rest of the world, and usually it will take with the first success of that they will get the approvals on the other side. Once it is launched in the native market, they will get the approvals in the next side, which is not in my domain.

Nisarg Vakharia: For next year the number that you mentioned is around Rs.380-400 crore that is not building in anything, if one of these three or all three were to become commercial that would be an additional, if it were to happen?

Venkat Jasti: Yes.

Nisarg Vakharia: Secondly, on the FOREX front, can you just tell us what the policy is? And have you got the full benefit of the rupee depreciation, if you were to remain in the current level going forward there could be some cushion to margins from that?

Venkat Jasti: It is very difficult to predict the FOREX movement. As of now, we are not doing it, because last time we covered it and we lost our money. We are using this for natural hedging for imports and the loss that we have is in dollars only, we are only hedging against that and we have some gains out of this.

Nisarg Vakharia: As of now, are we not hedging anything as far as the net exports are concerned?

Venkat Jasti: Not covering anything.

Moderator: The next question is from Ranvir Singh from Sharekhan. Please go ahead.

Ranvir Singh: For Vizag expansion, when do we expect that production will start expanded capacity from Vizag?

Venkat Jasti: It will be in FY'15-16 and maybe in the last quarter of FY'14-15 that will be a trial run.

Ranvir Singh: In pre-clinical trials, we have 6 molecules, out of that 6 we are expecting 3 to be moving to IND?

Venkat Jasti: Yes, 3 are moving to IND.

Ranvir Singh: Next year?

Venkat Jasti: Yes.

Ranvir Singh: And out of that three Phase-1 molecule how much should we progress in next year?

V Sunder: The three which is likely to enter Phase-1 next year, which is December 2014. Based on the success of this, it is likely to enter the next stage sometime in 2015. We are talking much ahead of time, because first it is supposed to enter Phase-1, then we have to take a call.

Ranvir Singh: Are all our molecules secured through patents in different countries, or are there only few molecules that have been given patents in different countries, how is this?

Venkat Jasti: We file these through PCT route and for the global patents we do, and when the grant is happening, like SUVN-502, we have 95% of the countries granted already, but some other things are in the prosecution, so they are yet to be granted. But all is filed, it is under prosecution.

Ranvir Singh: We are getting from pre-launching of the three molecules, where do we account this; this is in CRAMS or Drug Discovery Services segment?

Venkat Jasti: It is a supply for the CRAMS products only; it has nothing to do with the drug discovery services. It is manufacturing under CRAMS.

Moderator: The next question is from Saurav Jain from Sushil Finance. Please go ahead.

Saurav Jain: There are three suppliers for this newly pre-launched intermediate, how confident are we that we will continue to supply for this in case they get commercially launched?

Venkat Jasti: They would not take it from us if they are not going to give the repeat business. This is a strategy they had used because of the global nature; it is one from Asia, one from Europe and one from USA. So, Indian player will be the cost-effective player, so there is no question of not receiving anything. It is only how much success they are having after launch.

Saurav Jain: What is the term of such contracts after launch?

Venkat Jasti: These are of minimum 8 years after launching, roughly go up to 12 years sometimes.

Saurav Jain: What is the stable EBITDA margin that you expect in the long term?

V Sunder: Long term EBITDA margins are around 15-20%.

Saurav Jain: This is Pre-R&D?

V Sunder: Pre-R&D will be higher; pre-R&D EBITDA margin is between 25-35%.

Moderator: We will take the final question from the line of Parth Mehta from ICICI, it is a follow-up question. Please go ahead.

Parth Mehta: SUVN-502 is in Phase-1b, are there any complications or problems that we are facing in the current set of people, and is it effective and how effective is it?

Venkat Jasti: Phase-1 is finished; Phase-1 is mainly to take care of the safety in the humans. In Phase-1b, we are comparing with aged versus adults, male versus female, and fasting versus fed. These are the things which are needed to write the protocol for the Phase-2A. So, it is all successful, they only want to see the differences, whether the male/female need a different dosing, whether the aged versus adults whether they need different dosing, you should take the medication before meals or after meals, these are the things which we are trying to find out. Moreover, when we did Phase-1, we have used the drug in the capsule without any formulation. Now that with this gap after doing all the GLP Tox studies, additional and all that stuff, for a longer duration of clinical trial, we already developed a tablet of once a day dosing. This is being used in the Phase-1b, this is a marketable tablet, so these are the parameters we are working out.

Moderator: I would now like to hand the floor over to the management for closing comments.

Venkat Jasti: Thank you to all the participants for showing interest in Suven's business and business model, and we hope to give you updates periodically as we are doing, and we hope there is some commencement in the CRAMS model in the innovator products even though it has taken a long time. Also, we are continuously focusing on increasing the bandwidth on the CRAMS, which is our bread-and-butter, and at the same time we are increasing the number of molecules in our portfolio but for the risk-averseness of big pharma by now we could have been outlicensed four of the molecules, but anyway we are working on that vehemently, and hopefully, we will get the success sooner than later. Thanks again for arranging this session Gavin, and thanks to all who participated in this, thanks a lot.

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