Suven Life Sciences Limited

Q1 FY15 Earnings Conference Call Transcript
August 13, 2014

Moderator Ladies and gentlemen, good day and welcome to the Suven Life Sciences Limited Q1 FY15 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 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 of CDR India. Thank you and over to you, sir.

Gavin Desa Thank you Shaima. Good day and thank you for joining us on this call to discuss the financial results of Suven Life Sciences for the quarter ended June30, 2014. We have with us Mr. Venkat Jasti – the Chairman and CEO and Mr. Venkatraman Sunder – VP, Corporate Affairs.

Before we begin, I would like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. Documents relating to the company's financial performance have already been e-mailed to you earlier. I now invite Mr. Jasti to share some perspective of the performance over the quarter and his outlook for the year ahead. Sir, over to you.

Venkat Jasti Yes, good afternoon everyone. Thanks for participating in our con-call for the quarter ending June 30. As we have mentioned yesterday, during the quarter we had a growth of 27% in revenue, growth in PAT was at 17% and growth in EBITDA was ~ 27%.Increase in R&D cost was about 12% and R&D to sales is around 6.28%. I think it is better than what we had projected for this first quarter because of some value added products which had been supplied during this quarter. With respect to the further three quarters, we stand by our original estimations, with an upward bias of maybe another `10 to 15 crore on the top-line and maybe `10 to 15 crore on the bottom line.

With respect to the NCE pipeline, SUVN-502 has finished Phase-IB and we are expecting the data anytime now and in November we have a technical committee meeting with the clinical advisors where we will try to finalize the protocols permission to the USFDA and after that it will take a couple of months approximately three months owing to year ending holidays. Post which we will get permission to start the enrollment of patients for the Phase-IIA proof concept. Also one of the molecules 3036 is now being submitted in the U.S. IND next week hopefully we will start the Phase-I study by November/December of this year. So this in a nutshell and the other two entities which were 4010, other two we are having pre-clinical studies being done at the USA site in order to proceed for the IND stage. This is in a nutshell and I look forward for any questions you have on this performance and future guidance.

Moderator Thank you very much sir. Participants we will now begin with the question and answer session. We have the first question from the line of Prashant Kanuru from Karvy Stock Broking. Please go ahead.

Prashant Kanuru Sir just wanted to understand what is the reason for the spike, like you said there is newsthat you got an order from MNC, so is this related to the intermediary for which you are doing a capacity expansion in Visakhapatnam or is this something else?

Venkat Jasti When did I say it's an order from MNC?

Prashant Kanuru Sorry sir?

Venkat Jasti When did I say that?

Prashant Kanuru No sir, in the presentation there was mention about some sort of a contract from MNC, so like just trying to connect, just vaguely, is there any new order which has worked in your favor for this?

Venkat Jasti As far as I know, everything is on continuing basis only. There are no new orders, but the Vizag facility is for one of the existing specialty intermediate expansion capacity which we are undertaking.

Prashant Kanuru Okay. So, in this was it because of the intermediary the results are better than expected or?

Venkat Jasti No, it is the product mix as it keeps changing and we do not have a stock-and sale item per se, so sometime the value added product comes in during the quarter so the bottom-line is much better and also the top-line. And next time some of the products maybe not be that value added and the volumes would be less and also the profit margins, so that is why you see this change in the bottom-line and the top-line.

Prashant Kanuru Sir the value added products and all these NCEs?

Venkat Jasti This is NCE based only, because other than that one specialty intermediary which we are doing, which is constant, there are no additional value addition products on that other than the volume based increases to the next level. Otherwise, it is all NCE based intermediates only, you will get sometimes very good valuations because of the stage which we are in and also a little bit of additional quantity gives you better margins.

Prashant Kanuru So sir this intermediary, what is the usual run rate in volume terms, 120 kiloliter order capacity that you have, volume and value term sir, what do you think the run rate for this intermediate would be for this year? Like you had projected around 18 odd million for this year, so would it be at the same level?

Venkat Jasti 18 odd million for what?

Prashant Kanuru For the intermediary sir, for which you are carrying out CAPEX in Visakhapatnam?

Venkat Jasti Okay. That will be additional capacity which we are creating is for about 40 metric tons per month.

Prashant Kanuru Okay, 40 metric tons per month. Okay sir, but this year what is the expected revenue from that would be still around 18 or will it be higher than that?

VenkatJasti Yes, it will be around 22-20 each, not from Visakhapatnam but existing ones.

Prashant Kanuru Yes, Pashamylaram or?

Venkat Jasti I mean, both everywhere put together for that intermediate, the existing will be a little bit more than last year.

Prashant Kanuru Okay. So, sir the revenue would be 22, okay. Sir and this NCE molecules that we have, what is the breakup in terms of Phase-I, Phase-II any anything on in Phase-III?

Venkatraman Sunder 52 in Phase-I, 46 in Phase-II and one in Phase-III, there is no change since last year.

Prashant Kanuru Okay, sir. And was there any more requirements for commercialization stocking for those three molecules that you had supplied?

Venkat Jasti Not yet.

Prashant Kanuru So, sir on the supply, there was no revenue from those three in this quarter?

Venkatraman Sunder No.

Venkat Jasti No.

Prashant Kanuru Zero revenue from those three?

Venkatraman Sunder Yes.

Prashant Kanuru But we still have managed such good results. Okay, that is great. Sir about when are those revenues expected to start then, you said by this calendar year end or?

VenkatJasti Usually 12 to 18 months gap will be there since we first supply the pre-launched quantity. It can be calendar year end, it can be fiscal year end but we not got any information on that because after going into the real market only then will they get the feedback of six months.

Prashant Kanuru Okay sir. About the ANDA Malathion, what were the revenue this quarter and royalty?

VenkatJasti Yes, not yet. I mean we started shipment in the month of April and we will get this feedback in October.

Prashant Kanuru Okay. And the Malathion also?

Venkat Jasti Yes.

Prashant Kanuru Okay, sir. So, sir your revenues were like basically related to CRAMS from these 99 NCEs?

Venkat Jasti Yes.

Venkatraman Sunder Right.

Prashant Kanuru Okay.

VenkatJasti Including this specialty intermediate.

Prashant Kanuru Okay. This includes a specialty intermediate and the 99 CRAMS?

Venkat Jasti Right.

Venkatraman Sunder Correct.

Prashant Kanuru Yes. And no Malathion and no three commercial products?

Venkat Jasti No, Malathion revenues a little is there which not much is, it comes to US$1 million that is all.

Prashant Kanuru Okay. Otherwise it will go up to around US$4 million, 2.5 million is royalty or 1.5 million is royalty?

VenkatJasti Yes sure, another 1.5 to 2 million will come before the end of the year.

Prashant Kanuru Okay. And sir what is the average CRAMS revenue that is a bit variable part you said right sir?

VenkatJasti Yes, you cannot because the product mix that is being supplied keeps changing, about 70 to 80 products kilogram levels to 500 kilogram levels so it is very difficult.

Prashant Kanuru Okay. And sir any chance of increasing this product portfolio of yours from 99

Venkatraman Sunder It will come but right now this is what it is.

Prashant Kanuru Okay sir. Anything that is possible to come this year, in this financial year?

Venkatraman Sunder Yes, certainly.

Prashant Kanuru Okay, so it is all MNCs right sir?

Venkatraman Sunder Yes.

Moderator Thank you. We have the next question from the line of P. Shrihari from PCS Securities. Please go ahead.

P. Shrihari Sir, looking at the backdrop of this fantastic numbers have you revised your guidance for the current fiscal and next fiscal?

VenkatJasti I just mentioned that we are not revising much, but it may be around `10 crore towards the upside because quarter-on-quarter you cannot look at it, year-end figure that counts, so we stick by to that full `460 to 480 core range in the top-line `90 to 100 crore max on the bottom-line.

P. Shrihari Okay. So, vis-à-vis 80-90, you will revise it to 100?

Venkat Jasti Right.

P. Shrihari And fiscal '16?

Venkatraman Sunder There is no major change to what we have given, it's about `550 crore in top-line.

P. Shrihari Yes, I think you have mentioned top-line of `600 crore and 15% net margin?

Venkatraman Sunder 550 crores+.

P. Shrihari In that case it will be kind of de-growth I mean year-on-year so?

Venkat Jasti You can look at the way we look at it because last year it was 250 and we have taken out the one off thing then it is a growth. But if you consider the one off then it is a de-growth. But we have clearly mentioned last time it will be a de-growth.

P. Shrihari No, no, I am saying fiscal '16 vis-à-vis fiscal '15?

VenkatJasti Yes, fiscal '16 is going to 15% to 20% growth, we have given based on 450-460.

P Shrihari But in that case the net margin should be much higher because you had guided for a net margin of 15% in which case the bottom-line was of `90 crore.

VenkatJasti Yes, I said it can be up to `100 crore.

P. Shrihari For the current fiscal right? No sorry for the current fiscal?

VenkatJasti Yes, current fiscal?

Moderator Thank you. We will take the next question from the line of Ashish Thavkar from Asian Market. Please go ahead. You may go ahead with your question.

Ashish Thavkar On the R&D front since we have two molecules which will be there in the IND phase now and one molecule going into Phase-IIA studies, arewe guiding for any incremental R&D guidance since we had already done `48 crore in FY14. So, your guidance would be helpful sir.

Venkat Jasti This year I mean we are taking about `50 crore guidance for all R&D expenses other than the Suvn502, the proof of concept, that is a different thing because that is developmental, that is next year it will be in the 15 to 16-17.

Ashish Thavkar Okay. So in FY16 we should assume higher R&D?

Venkat Jasti That's right.

Ashish Thavkar And how would the funding be going because we typically would be requiring around $15 million to $20 million?

VenkatJasti Yes, as of now we have some internal accruals and hopefully the way things are progressing we should be able to generate some more internal accruals and maybe we will do some of kind of quasi debt or equity dilution at that time.

Ashish Thavkar Okay. But is it possible to rope in partner even before the actual Phase-IIA or Phase_IIB studies end?

Venkat Jasti I think I have been telling you clearly from the beginning, it is our interest to have a partner at this stage but because of the risk averseness of the global pharma everybody wants to have a molecule after proof of concepts in patients. Hence, we need to go to the next stage, otherwise we are interested, even now people are talking to us but there are no guarantees.

Ashish Thavkar Okay, so, we might go for more debt or some equity dilution?

Venkat Jasti That is right.

Ashish Thavkar Sir again my next question would be on the formulation business, since we had already done three to four ANDA filings for the U.S. market and hopefully we also have a facility ready, so what would be your comment, like how are we seeing the formulation business for Suven Life Sciences?

VenkatJasti Yes, this is leveraging exercise because of the capabilities we have and we are doing specific small volume molecules and results of this will happen only after two to three years, not before that.

Ashish Thavkar Okay. But incrementally are we working towards filing and developing more ANDA?

VenkatJasti Yes, Yes, we are working with a couple of new customers and yes we will filings more of ANDAs eventually.

Ashish Thavkar Okay, so we are focusing on core strength like CNS here or we are open it is like product wise?

VenkatJasti No, when it comes to ANDA, it is disease agnostic, it is the solid oral dosage forms and liquid oral dosage forms as far as we are concerned, it can be any therapeutic indication, these are generics, these are all existing. So there is no CNS therapeutic indication alone we are interested. As you can see we have done the Malathion which is scalp medication, so it has nothing to do with CNS.

Ashish Thavkar Okay. Sir for this thing we believe that we already have a facility in place, the formulation facility.

Venkat Jasti Yes, we have a facility in place to do this small volume high value and up to clinical trial supply size. So it is kind of piloting type of a facility we have for both solids and liquids. And when it comes to the development in R&D, we can do all other things but when we want to do the volume base production we need to build facilities but as of now there is no requirement for that.

Ashish Thavkar Okay. So just to understand or put things in perspective, the facility is not sitting ideal as of now?

Venkat Jasti No, not at all.

Ashish Thavkar Okay, that was helpful. Sir another thing on the intermediary contract with three potential clients, if that happens to click in next year next fiscal, would it be safe to assume that these projects would run in annuity like for the next five to eight years?

VenkatJasti Yes, the product for which we have supplied prelaunch quantities, yes it will have an annuity but we do not the quantum, it maybe more than what we supplied or it may be less than what we supplied, depending on how the molecule perform in the market. But it will have at least 7 to 8 years annuity.

Ashish Thavkar Okay. Sir but for that thing would we be having a visibility from the client side that you would need to process so much of orders during a particular period of time, is that a thing or it comes randomly from the client?

Venkat Jasti No, it will come six months ahead of schedule, so we have enough time to manufacture those things.

Ashish Thavkar Okay, Yes, that is helpful. So again to that, if you could elaborate more on the tax front because I guess as and when these contracts come up we will be at the

higher end of the tax rate at 28%, supposing the contracts do not come so what kind of tax rates can we assume?

Venkat Jasti See, right now we almost reached the tax rate of 32% if you really see the past quarter. So, we assume that in the coming quarters it will be certainly above MAT and last year if you see the average was close to 26%, we expect that it will be around that.

Ashish Thavkar Okay. Sir on the industry front what would be your comments, as far as the outsourcing in the CRO space is concerned, what kind of activities are going be it the venture capital funding or the small biotech companies receiving funds, so any comments on that front would be helpful.

VenkatJasti Yes, I think comparatively growth is happening a little bit, much more outsourcing they are looking at because everybody is cutting costs and putting infrastructure in place. So for those people who are in with long experience will be the beneficiaries eventually.

Ashish Thavkar Okay, so both the CROs and the CMOs would be the beneficiaries?

VenkatJasti Yes.

Moderator Thank you. Our next question comes from the line of Tushar Manudhane from Quant Broking. Please go ahead.

Tushar Manudhane I just would like to have the R&D cost break-up in terms of R&D spend for NCE and the R&D spend of ANDAs for FY15 where you have guided 54?

Venkat Jasti The ANDA is a very miniscule, that is mainly the cost of people and some experiments and the payment of the FDA fees, the bulk of the activities are towards the NCEs. Only 5% to 6% goes to the ANDAs.

Moderator Thank you. The next follow-up question is from the line of P. Shrihari from PCS Securities. Please go ahead.

P. Shrihari Did I hear correctly that the R&D outlay for the current fiscal is estimated at `50 crore?

Venkatraman Sunder Yes.

P. Shrihari You had motioned `60 crore in the previous con-call?

Venkatraman Sunder No, it is `50 crore.

P. Shrihari And apart from SUVN-502 which are the other key leading NCE candidates?

Venkatraman Sunder That is 3031 will be the next IND candidate.

P. Shrihari Okay. So, apart from 3031 you have 4010?

VenkatJasti Yes that is in the pre-clinical stage in the GLP talks and there is another one called 911 which is also in pre-clinical talks.

P. Shrihari So for 3031 you expect to commence Phase-I studies from November?

Venkatraman Sunder Yes.

Moderator Thank you. We have the next question from the Surjit Pal from Prabhudas Lilladher. Please go ahead.

Surjit Pal Mr. Jasti, last time you said is that your good performance was basically for two quarters but even post two quarters also you have been doing a fantastic performance. So should we take it as a consistent run-rate or you still say that every quarter we have to track whether the order is coming from higher range product of Phase-I?

Venkat Jasti Surjit, as I said earlier, until the repeat order comes with the pre-launch quantities which we have supplied, the run rate sustainability you have to watch quarter-on-quarter basis only. Only with respect to the specialty intermediate supplying, that is base loading has happened. The base loading of these three products will happen I think next year April onwards. That time then you will have some kind of a run rate continuity, until that time it is quarter-on-quarter basis.

Surjit Pal Okay. So next or coming April onwards only you can give us kind of an idea that how the run rate will shape up?

Venkat Jasti Yes, sir.

Surjit Pal And so, your next question is on NCE, any positive outcome in terms of what you were observing currently both in terms of deal and in terms of your own product?

VenkatJasti Yes, I mean SUVN-502 as I said we have finished Phase-IA long-time ago and then meanwhile the changes in the clinical trial protocol has happened we have to do additional testing which has been done during that period, we have developed the once a day dosing tablets, using those actual tablets which will go into patients we have done our Phase-IB, just finished last month and the results are being estimated and in November we will have a key opinion leaders meet where we try to finalize the protocol to be submitted to the proof of concept to the USFDA. And so that will allow us to go to the Phase-III next year.

Surjit Pal And when you are going to submit this in conference?

Venkatraman Sunder No, it is not in conference.

Venkat Jasti No,It will be our own.

Venkatraman Sunder Our technical advisory.

Venkat Jasti Our advisory board.

Surjit Pal No, I am saying is that international pharma conference.

Venkat Jasti Last month we have gone to the Denmark where we have explained through our posters the status of all these products and we got a lot of questions and information gathering happened. Again, it will be in Society of Neuro Science in November and we will be presenting our data.

Surjit Pal Okay. So, any kind of active interest in that molecule?

Venkat Jasti Everybody has very active interest but nobody has a mandate to buy it at this stage, that is the problem.

Surjit Pal And how about the competition from your global peers on the same molecule or same indications?

Venkat Jasti I think we are almost on the top level now and all the big guns have come down because the molecule had safety problem and I think Yes, we can say to be partnerable we may be saying we are in the 90 percentile range.

Surjit Pal And you must definitely have comparative analysis of those molecule which has already failed in approval I mean including the big names –

VenkatJasti Yes we know what the problem is, it is the molecule itself. And we also know the other competitive molecules which have passed the Phase-IIA.Also we have tested our molecule against them and we feel we are equal and better in some aspects so we are confident and that is why we are going ahead with this preparation for the proof of concept.

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

Venkat Jasti Okay. Thank you CDR and thanks to all the investors who have called in for this conference call. And we hope we have given you the present situation and the future prospective and if you may have any questions, you may send us your query through CDR and we will be glad to answer them. And thanks again for listening in. Thank you.

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