Suven Life Sciences Limited

Q1FY16 Earnings Conference Call Transcript
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Moderator Ladies and gentlemen good day and welcome to the Suven Life Sciences Limited Q1FY16 earnings conference call. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rabindra Basu of CDR India. Thank you and over to you sir.

Rabindra Basu Good day and thank you all for joining us on this call to discuss the financial results of Suven Live Sciences Limited for the quarter ended June 30th, 2015. 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 state 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 already been emailed to you. I now invite Mr.Jasti to share some perspective on the performance over the quarter and his outlook for the year ahead. So over to you.

Venkat Jasti Good afternoon everyone. Thanks for logging in for our quarterly update and all of you know that I have given guidance for a flattish growth for this year, as it is a consolidation year and when you look at the numbers income is down by 25.63% compared to the first quarter of last year and PAT is down by about 41%-42%, however on aQuarter-on-quarter, the PAT has gone up by 19%. The reason for this aberration is that last year first quarter we had about Rs. 45 crore of sales from the prelaunch quantity supplies which is not there this year. In other words, when I said flattish growth it should be the same as last year, as a matter of fact there is a 2%-3% growth, if you take Rs. 45 crore out. But at the same time the profit margins are better, in spite of not having Rs.45 crores which has more than 50% net margins. That is why you see amuted figure in the bottom-line .The way things are looking at we are sticking by the same guidance. We cannot look at quarter-on-quarter basis but by the end of the year we hope to do the same thing as the last year as far as the revenue is concerned.

The other side of the business which we have is SUVN-502 which is ready for proof of concept. Last time, we have mentioned that the investigators meeting will be in September and the enrollment of the patients will be in October, it remains the same. The number of patients finalized are at 537 patients instead of 520 and it will be a 6 months' trial and roughly it will end sometime in the third quarter of 2017.

The second molecule SUVN-G3031 has finished the live phase of the phase I in US and the data will be out in couple of months from now. Based on that we have to do the phase II enabling toxicological studies which will take a year and will be done by2016. Then it will go into proof concept in patients ie phase IIA in 2017. With respect to SUVN-D4010, we have filed the US-IND and it will start sometime in September or end of this month if not, we are waiting for the USFDA approval so that we can start phase I clinical trials in USA. So these are the things as far as the innovation side is concerned.

After due deliberation we have taken the permission from the board that we should start an overseas entity, either by our self or by acquiring something mainly to develop the compounds not only in our pipeline but also in licensed compounds. If I want to attract talent for the development which is not in India it will be very difficult for me to get the talent because when you try to attract the talent with high level persons, they may also look for some kind of a partnership And they do not have to come to India. So this is the reason why we thought because now we have the critical mass in our development pipeline and also we have other opportunities in this field we thought it is better to start an overseas entity, with an investment of $25 million which will also help us to fund our development molecules , either we spend here or we spend there it is one of the same, we thought it will be better to attract the talent and to do where the valuation can be much better.It is the right time for us to do that kind of exercise because we have the critical mass now. So I think with this, I want to leave the floor open for questions so I can answer. These are the three areas I want to explain first before we take questions. Thank you.

Moderator Thank you very much. We will now begin the question and answer session. We have first question from the line of Sai Prabhakar from Karvy Stock Broking. Please go ahead.

Sai Prabhakar When you mentioned critical mass, are you measuring that by the pipeline that you have or the revenue base which you see as a consistent runrate every quarter or the margin performance? I was wondering the critical mass that you had qualified earlier.

Venkat Jasti The critical mass is the pipeline having more than one molecule for a better utilization of the talent we hire for the overseas entity.

Sai Prabhakar So what will this be, are we looking at in the space of NCE development?

Venkat Jasti The development means clinical development. Discovery is done in India but when we do the clinical trials that is called development. That development usually takes place overseas. In this case, it is being done 100% in USA because it is the biggest market and it is where the opportunity lies, valuations and also the people are available for alignment to take these molecules further.

Sai Prabhakar So this 25 million you mentioned, the timeline and funding plan are in place or is it too early?

Venkat Jasti No, timeline is there and now we have to finalize where we are going to put that place and it can happen very quickly.

Sai Prabhakar Will this be parallel to the portfolio of 13-14 NCE molecules in our portfolio?

Venkat Jasti 13-14 molecules are at various stages of preclinical development. Out of that 3 are in clinical development.

Sai Prabhakar The acquisition that we are trying to make will be parallel to this?

Venkat Jasti I said there is a possibility but at this time we are not talking to any one. This is an enabling resolution. There is a possibility that some companies are available. So we can take that company and then reverse merge it. This is the only enabling resolution, not that we have something on plater right away.

Sai Prabhakar Coming to the operational performance, margins are better this quarter even on a quarter which is like, on a comparable basis, no one off item, so is it because of the product mix or something…?

Venkat Jasti It is always the product mix.

Sai Prabhakar We had a better product mix compared to the normal state of operation.

Venkat Jasti That is right. It keeps changing because this is a stage where the products are. If you supply more of a phase I molecule, then volumes may be there but not profit margin. If you do the phase II it is a little bit more, if you do the supply for phase 3 molecules it will be little bit better. So it is always the product mix that derives the profits.

Sai Prabhakar Do we have 114 active CRAMS project?

Venkat Jasti We have around 111 active CRAMS projects, 3 which are commercial which will happen when the molecules repeat business comes into the picture. Let me explain to everyone here, June quarter we supplied the last bit of the prelaunch quantities**.** So what happens is, it usually takes one and half years to two years for the repeat business to occur because when we supply the intermediates, they have to make the APIs then the formulation and then go to the market. Now all these three molecules moved Even though all the three products are meant for global launch but initially they are launching regionally. The US company has launched in US, now they are going to Europe and the Europe company has launched in Europe and going to US and vice versa all the companies are yet to go to Japan. So there **is** a lot of quantity left with them since they have made 50% more than their forecast. The second thing which everybody has to consider is unlike the good old days, now the medications are paid either by the government or the insurance. So putting them on the formulary is also taking a little longer. So that is why we did not get any indication as of now when the repeat business will come and we expect and we hope it will be sooner than later. The best scenario has been the fourth quarter if not at the first or second quarter of next year. So this is what I want to explain to everyone.

Sai Prabhakar So just to confirm this, +3 is what we did last year itself. These are not new?

Venkat Jasti Yes, they have launched but not yet fully launched all over the world.

Sai Prabhakar Could you provide a breakup for the 111 active?

Venkatraman Sunder 57 in phase I, 53 in phase II, 1 in phase III.

Venkat Jasti Thank you. The next question is from the line of Ashish Thakkar from Asian Markets. Please go ahead.

Ashish Thakkar When you are guiding for a flattish growth in FY16, this flattish growth excludes the Rs. 45 crore that we have done last year or it is including the Rs. 45 crore number?

Venkat Jasti Rs. 45 crores cannot be included, that is a one off. We want to achieve normal growth which will compensate that Rs.45 crore, and that should give us the same flat number.

Ashish Thakkar On the reported basis you are saying?

Venkat Jasti Yes.

Ashish Thakkar The next question would be on the margins, initially we used to do on the base business we used to do around 26%-27% EBITDA margins. But since then we have added 10 new contracts to our CRAMS portfolio, I believe the margins have been consistently coming on, since last 4th quarter FY15 the margins had dropped to 22% and now although they have recovered sequentially, could you give us some color as to what kind of EBITDA margin on the base business we could have going forward and as such if you could provide some guidance for FY16?

Venkat Jasti Actually the problem everybody is seeing is, they have seen the exceptional growth in FY14-15, but they are not seeing the numbers from before. But at the same time adding 10 products will not give you better margins, as a matter of fact the margins will go down. The reason is, when you add it mostly in the phase I as we had, in the phase I trial rather than the supplies you will have the R&D unit to do initial R&D for that small quantity. So it is time consuming and also there is less revenue generation. So the margins will not be that much. As far as going forward to keep the margins, we are saying around 25% EBITDA margins, we thought of year-on-year basis should be there and I think we are almost there.

Ashish Thakkar So for FY16 you are guiding for 25%?

Venkat Jasti Yes.

Ashish Thakkar One more question on drug discovery pipeline. Since we have now a 3031 and 4013 in the pipeline, so any plans or any color as to how these molecules will be funded?

Venkat Jasti It is all funded through the QIP process which we have taken last year**.**

Ashish Thakkar The next question would be on the $25 million that you would be investing in setting up the subsidiary in the international markets, so could you give some more color as to what are we planning to do exactly there. We will be hiring people on permanent basis, or we will be transferring our pipeline, our drug discovery pipeline there and we will be doing a development work, could you give some more details about these subsidiary?

Venkat Jasti As you know it is a combination of both. Ours is a drug discovery company, we thought now we will finish our Phase-I and we will outlicense these compounds for the global players who are the experts in the clinical development which they can take to the next level by getting some money for us. But unfortunately because of the discover sense in the CNS especially everybody is saying that you also finish the proof of concept in the patient system. So for that we need to have experts, right now we have few opinion leaders in our development of the protocol. But now the molecules arebecoming3and next year we will also have 911. So this is the right time for us to set up a thing and hire people who are going to be the experts in this field and also transfer these assets eventually to the development and commercialization aspect. So it is a combination of both.

Moderator Thank you. The next question is from the line of Vina Patel from I Wealth Management Pvt. Ltd. Please go ahead.

Vina Patel What was the revenue contribution from specialty chemicals?

Venkat Jasti This quarter it is Rs.37.64 crore.

Vina Patel What was the contribution in Q1 last year?

Venkat Jasti Q1 last year is Rs.41.72, Rs.4 crore less.

Vina Patel In this Rs.37 crore of our revenues from specialty chemicals how much was from the Vizag unit?

Venkat Jasti Vizag unit, not yet. We have this quarter.

Vina Patel So this is the first quarter where Vizag could be commercial and how many blocks have been operational in Vizag?

Venkat Jasti We have built only one block.

Vina Patel Out of the total budgeted CAPEX of around Rs.110 crore of Vizag facility, how much we had capitalized? I think the Rs. 23 crore was capitalized

Venkat Jasti No, more than Rs.110 now, it has gone up, the budget has gone up because of increase in steel, cement and all other costs. Year ending we have not capitalized, quarter ending also not yet capitalized because we are not given the commercial invoice, it is not capitalized but this quarter it will be capitalized.

Vina Patel So I think in FY15 numbers, the WPI number was around Rs.107 crore, so that is entirely reflecting Vizag CAPEX?

Venkat Jasti Yes.

Vina Patel So that will be getting capitalized this year itself?

Venkat Jasti Yes, this running quarter it will be.

Vina Patel How much would be the CAPEX with regard to our two molecules – 502 and 3031 for FY16?

Venkat Jasti We have clearly mentioned $20-21 million for the 502 over a period of two years.

Vina Patel What about 3031?

Venkat Jasti I think that is a not a CAPEX, we cannot capitalize that.

Vina Patel I am not talking about capitalization, I am talking about the outlay of research expense.

Venkat Jasti Outlay, yes.

Vina Patel How much would we spend in FY16 for both these molecules 502 and 3031?

Venkat Jasti Roughly about Rs.12 million.

Vina Patel And the remaining would happen in FY17?

Venkat Jasti Yes. Sometimes it may get postponed.

Vina Patel In this particular quarter on the absolute numbers, the other expenses have gone up compared to same quarter last year. So what have been the reasons for that?

Venkat Jasti I will have to get back to you on that.

Vina Patel Once last question about our normal R&D CAPEX for the rest of pipeline of molecules, will be in the range of Rs.50-55 crore?

Venkat Jasti Yes, it will remain the same.

Vina Patel It is not going to exceed the Rs.55 crore.

Venkat Jasti Yes.

Moderator: Thank you. The next question is from the line of Ranveer Singh from Systematix Shares. Please go ahead.

Ranveer Singh Just related to that our investment plan of USD 25 million overseas, so whether we have identified geography where we are going to invest this?

Venkat Jasti We are in the process, we are working with couple of big four firms and we want to see various aspects of this, both tax angles, I think in couple of months hopefully we will finalise that.

Ranveer Singh What I believe is that, for clinical trials whether we are planning to do it for a regular market focus or how is the plan in that sort?

Venkat Jasti So NCE will be for regulated markets, there is no sense doing in India and spending money, So it is always regulatory markets as I said this is clearly being done in the USA alone because it is the biggest market, which is a global product. So we will be doing always in the regulated market.

Ranveer Singh Though this is an enabling resolution but what I believe this is one time expenses for setting up subsidiary or it is to create some infrastructure there for trials, or how this will work?

Venkat Jasti Not much will go for infrastructure itself. There is no infrastructure there, this is a developmental company. It is going to be a virtual company, no labs are going to be there. There are people, who are the experts will be joining on the board, board in the sense, both the board and the management level to take these molecules for the development and commercialization. So it is not much into the infrastructure.

Ranveer Singh What I believe that if assuming that 25 million invested, then there would not be much recurring expenses there. So that is what we assume right?

Venkat Jasti Correct, recurring expenses is the salaries and all that stuff of the staff that is going to be coming on board.

Ranveer Singh The activities related to the clinical trials should be mostly outsourced in that mode what I believe?

Venkat Jasti Yes, already it has been outsourced to large CRO in USA, is one who is going to do it, but there are so many other things we need to do and also do the business development also at the same time while this is going on because you cannot start in one go last minute. You have to prepare and present and also guide the clinical development team how to go about it. The product or development all these things will come into picture.

Ranveer Singh On NCE under development, I think last time we indicated even we can look at partners also on a milestone basis to develop it further. So whether we have received any such proposal or whether we are looking for the same?

Venkat Jasti I think we have clearly mentioned, for the last one year that we have 8 serious interests and they have done the due diligence. 4 of them even have done the material transfer agreement and done the experiments in their own labs, they are satisfied with the IP, but they do not have the mandate to buy these compounds at this stage of the game. In my initial remarks also I have clearly mentioned because of the risk averseness there is not much movement in terms of the out-licensing**.** I would like to have this done by now but now we have no other choice but to go to the next level of proving in the patients and we are very confident of our molecule. That is why we are taking this. We are one of the four in the world in this field as of today.

Ranveer Singh So the investment of the 25 million is in this direction basically?

Venkat Jasti Yes.

Ranveer Singh The last year what we have got one-off revenues from that executed batches and we expected that the same will repeat in next year, so that probability continues?

Venkat Jasti As of now that is what the indication.

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

Chirag Dagli What is the royalty from Taro that we have got in this quarter?

Venkat Jasti Rs 2.61 crore.

Chirag Dagli This overall investment of $25 million. This is in the overall R&D budget that we have, of both Suven as well as?

Venkat Jasti Yes, this is a developmental budget.

Chirag Dagli So this $25 million investment in overseas subsidiary is not over and above our overall R&D spends that we have talked about in the past?

Venkat Jasti No.

Chirag Dagli Last question was on the CRAMS business if you can give us some color of how the business has done over the last 4 quarters. We can see the numbers but still in terms of the overall trend if you can throw some light on. What the drivers are and

possibly if there is a change in environment specifically for Suven, that we have seen?

Venkat Jasti No, as of now there is no change in the things and it is remaining the same and it is only the success of the customers molecules at the clinical development only gives us the opportunity to work out. If you see last year, cumulatively if you put together, the growth is 50% on the CRAMS business. But you cannot go on quarter-on-quarter basis for our company because it is the way it suddenly comes up in one quarter and the next two quarters are normal. So it is CRAMS as I was telling last time , the traction is much better compared to 3-4 years ago. That time we used to have 10%-15% growth and now it has gone up to on an average of 25%-30% growth. So this year as I said because of the huge growth we have already seen there and we are trying to maintain the same thing this is a consolidation year for us and when the repeat business starts coming in then the things will go much better.

Chirag Dagli One last clarification, this you indicated that 1.5 to 2 years quantity was picked up by the customer for those pre-launch quantities?

Venkat Jasti 1.5x.

Chirag Dagli So this when you are mentioning, you are mentioning about the FY14 number that we saw or cumulatively including the Q1 of FY15 as well?

Venkat Jasti I think that is part and parcel of that only.

Chirag Dagli All of it put together?

Venkat Jasti Yes.

Chirag Dagli That number was equivalent to 1.5xof their annual requirement.

Venkat Jasti That is right.

Moderator Thank you. The next question is from the line of Manoj Maggon an Individual Investor. Please go ahead.

Manoj Maggon My question is Mr. Jasti, where do you see Suven Life Science in next 5 years' time? What is your vision? The second question is are you facing any competitions from new competitors from India or overseas market?

Venkat Jasti As far as the competition is concerned, if you think it is a competition, it is a competition but in our case we are saying this is a collaboration we are doing with the collaborator. If they come to us, they do not go to somewhere else. If they go somewhere else they do not come to us. But the other way you can look at is, globally they are cutting down not only the pipeline but also the R&D budgets but at the same time we are also cutting down the number of players which they are working with as suppliers. They have started putting the long term players to the preferred suppliers, luckily for us I think I mentioned last time also with the four of the big pharma, we became the preferred supplier. That does not mean that we get the odd business right away. You will get more opportunity to work on the businesses finally leading to the success in the market for them and that will give us more opportunity that is as far as the way competition is concerned. With respect to 5 years from now, what you want to be there, where do Suven expect it to be, I hope that Suven expect it to be first molecule in the global arena launching

Indian drug discovered launching globally, that is what the aim. The way things are going, that is possible. But in this business nothing is guaranteed until it is done.

Moderator Thank you. As there are no further questions from the participants, I would now like to handover the floor back to the management for the closing comments. Over to you sir.

Venkat Jasti Thank you everyone for logging in and thanks for your continued interest and patience and as I said this year is a consolidation year and barring any positive outcome in the last quarter or it will be a consolidation year and the next year we are hoping that the repeat business for those molecules which we have supplied in 2013-14 and 2014-2015 they will come back and will give us a good growth. On the other hand 502 will go into the clinic this October and we hope to have a good go for this by 2017 and by 2017 there is second molecule 3031 will also be in the Phase-II and third molecules will be finishing Phase-I and in preparation for Phase-III and hoping that the subsidiary which we are facing and getting good people in and trying to optimize their expertise in our development and then commercializing our products to give a big turnaround because the valuations are in the overseas countries, we want to capitalize on. In essence all this is for now today and thank you again for listening.

Moderator Thank you very much. On behalf of Suven Life Sciences Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.