Suven Life Sciences Ltd

Q1FY17 Earnings Conference Call Transcript

August11, 2016

Moderator

Ladies and gentlemen, good day and welcome to the Suven Life Sciences Limited Q1 FY17 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. Gavin Desa of CDR India Thank you and over to you sir.

Gavin Desa

Thank you. Good day and thank you for joining us on this call to discuss the financial results of Suven Life Sciences for the quarter ended June 30th 2016. We have with us Mr. Venkat Jasti - Chairman and CEO, Mr. Venkatraman Sunder - VP (Corporate Affairs) and other members of senior management team. Before we begin I would like to state some of the statements made in today's discussions maybe forward looking in nature and may involve risks and uncertainties. Documents relating to company's financial performance have already been mailed to you and I trust you had a chance to go through the same. I now invite Mr. Jasti to share some perspective on the performance for the quarter and his outlook for the year ahead. Thank you, over to you sir.

Venkat Jasti

Thank you Gavin, good evening to all. The Q1 results as you could see, on a quarter-on-quarter basis there is a downtrend but year on year it is much better. As you know the reason for better performance is due to a few reasons - firstly the product mix; secondly the stage where we have made the supplies and also some of the repeat business for the commercial product which we have done and lastly also an increase in the specialty chemicals. Out of the CRAMS revenue, sales of specialty chemicals which we have done in this quarter is about Rs.53 crore and about Rs.11 crore-Rs.11.5 crore is done for repeat business. So this gave a better performance as the product mix moved to later stage molecule compared to the early stage molecule. These numbers change though as you know on a quarter-on-quarter basis and it is difficult to tell or maintain the numbers. By the year end, it would all normalize; we cannot give you guidance for the whole year because the visibility for us is less than 6 months, but we hope to achieve positive results and if anything does come in that will add to the performance. These are my views on the CRAMS side of the business.

With respect to the innovation as you know things are moving very well. SUVN-502 which is in Phase-2is being developed and a 537 patients clinical trial is underway with 70 odd patients being enrolled. The enrolment is progressing well now because it will take a while before we start the enrolment procedures and things are going well and now no adverse effects are known. Nobody knows the efficacies but the adverse effects will be known immediately so since these are not there it is a very good sign and we are expecting this trial will finish by the end of 2017, expected in

3rd quarter but it maybe a little bit later because of the paucity in the beginning of recruitments. The other molecule 3031 has finished Phase-1 as you know earlier and is preparing for Phase-2 trial that will be sometime in the next year. Similarly4010 also finished Phase-1 and the Phase-2 enabling services are underway. SUVN-911 will enter into Phase-1clinical trial by the end of the year so other than that we have other molecules nicely wrapping up their pre-clinical finalization, so to have 1 or 2 molecules going into clinical trialing the next 12 months. This is in a nutshell and I think I will now leave the floor open for questions so that I can answer.

Moderator Our first question is from the line of Sudarshan Padmanadan of Sundaram Mutual Fund. Please go ahead.

SudarshanPadmanadan You had initially said that there would be some kind of pre-commercial supplies if I am correct to the extent of about Rs.30 crore or so and second is there a possibility of second compound coming in, I mean what is the visibility we have, I mean the Rs.11 crore you mentioned, is it primarily on account of this which means that we would still have close to about Rs.20 crore left for the full year and what about the other compounds?

Venkat Jasti With respect to the Rs.30 crore orders for the repeat business Rs.11.5 crore has been serviced in the 1st quarter and Rs.18.5 crore is still pending for next 2 quarters,. With respect to the visibility for the second compound not been known yet but we have 8 more months to go and we hope to receive some positive feedback for the business.

Sudarshan Padmanadan You had mentioned that this Rs.53 crore was on account of specialty chemicals sales which has been good for the last couple of the quarters as well. But if I am actually removing this Rs.53 crore and Rs.11 crore and look at the numbers I mean it would appear that we would actually have seen some kind of decline on the CRAMS I am just looking at the apple-to-apple kind of comparison. Is my understanding right and if it is then probably what is it that is driving this kind of decline if I had to remove these two?

Venkat Jasti As I said early, if you see the last quarter basis I have mentioned in my earlier remarks that quarter-on-quarter based there is a decline, but if you see the 1st quarter of last year versus 1st quarter of this year, it is more or less the same.

SudarshanPadmanadan I am actually looking at 1Q of last year versus 1Q of this year, I mean this Rs.53 crore is an increment what you are talking about on this quarter addition right, If I am correct?

Venkat Jasti No, in specialty chemical there is an increment from Rs.37 crore to Rs.53 crore.

Sudarshan Padmanadan Okay, so Rs.37 crore to Rs.53 crore is on a year-on-year basis, right?

Venkat Jasti Yes.

Sudarshan Padmanadan Ok so if I remove this, probably this close to this Rs.13 crore and Rs.11 crore and probably the number look a little flattish?

Venkat Jasti Yes. The numbers look little flattish but at the same time because of the product mix, the values, I mean the bottom-line it would be better than the 1st quarter of last year.

SudarshanPadmanadan Probably going forward we should pick up the momentum, do we see any kind of new addition to our Phase-1, Phase-2, Phase-3 that we have or is it largely in line with what you had disclosed in the 4th quarter?

Venkat Jasti More or less this remains the same, not much difference but as a matter of fact only one compound, the active compounds are now 117 compare to 116, product mix Phase-3 remained at 1, 3 of the Phase-2 molecules they terminated so that came down, but at the same time there are 4 molecules added in the Phase-1.

Sudarshan Padmanadan Okay and sir coming to R&D spend, there has been a decline even on an absolute basis I would assume that with SUVN-502 the R&D spend should have been higher. So any or is it just for this quarter and probably you should get back?

Venkat Jasti No, I think R&D spend on 502 is not captured here because that is in a subsidiary company. Only after Phase-1 it will be R&D after that is the development so that is why that is separatein Suven Inc, which is a 100% subsidiary the spend goes there. This is a stand-alone.

SudarshanPadmanadan So that explains the drop in your R&D?

Venkat Jasti It is not much of a drop in because we have told you earlier it will be around Rs.60 crore for the whole year. So roughly it will beRs.1 crore this way or that way per quarter because depending on when you paid the last payment or not, when you have the experiments are taken care or not, all those come to the picture, not much of decline a small decline.

Moderator Our next question is from the line of Shriram Rathi of ICICI Securities. Please go ahead.

ShriramRathi Did we have any supplies for the NCE molecule this quarter?

Venkat Jasti Yes, I have already mentioned Rs.11.5 crore.

Shriram Rathi Not the commercial supplies. Out of your ongoing project that one molecule which is in Phase-3 right now?

Venkat Jasti Nothing.

Shriram Rathi Not this quarter?

Venkat Jasti No.

Shriram Rathi Okay and any outlook on that molecule, by when can we know whether it is moving to Phase-3launch those kind of thing?

Venkat Jasti As I said I do not have any visibility at this time because the Phase-3 to launch there is lot of a gap, I mean that is where we are.

ShriramRathi In terms of your EBITDA margin which used to be in the range of around 25% for the past 4 quarters, this quarter it has gone up to 32% and even on the pre R&D level also which used to 38%-39% is now 43%-44% this quarter. So can we assume that this kind of run-rate we sustain now in FY17?

Venkat Jasti See I cannot guarantee anything on this as I said, quarter-on-quarter we cannot tell but the product mix gives you that kind of a differential. For the entire year it will

work out to be EBITDA margins in the 30% and that is where we want to be minimum at least and EBITDA around 40%. That is what where we want to be.

ShriramRathi The final question on the tax rate, this quarter the tax rate is quite low, so what is the guidance for the full year?

VenkataramanSundar It will be more or less same. It is about close to almost 22% this time actually. Last time it was 22.89%. There is a marginal reduction butit will be more or less on the same lines.

Moderator Our next question is from the line of Purvi Shah of Sharekhan. Please go ahead.

Purvi Shah I just wanted to know if you could tell us the number of molecules in Phase-1, 2 and 3?

VenkataramanSundar 68 in Phase-1, 45 in Phase-2 and then 1 in Phase-3in addition to 3molecules which are commercialized.

Purvi Shah So that is the Rs. 11.5 crore business that has come from one of the molecules, right?

Venkat Jasti That is right.

Purvi Shah The other question was if you could just tell us the CAPEX plan for the year as well as if you could just update us on the audit status of all the USFDA approved plants?

Venkat Jasti We have Pashamylaram plant which was done audit this April and we had observation from there which we have answered we have received the EIR report already. So this is first time this has been audited and with respect to the CAPEX the regular CAPEX for 10%-15% replacement CAPEX will be normal because of the ageing of the plant. In addition to that because of the global requirements with respect to the NCE based compounds being highly not knowing the toxicity, customers are asking us to develop capability to handle QE4which is a level of potency. For that we are going to build a facility in Pashamylaram unit, a small block. We will be spending about Rs.50 crore on that over the next 12 months.

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

Ranvir Singh That is related to our 502 molecule, now because R&D expenses we are putting in a different entity. So on a consolidated basis I think the total R&D would be much higher but it is visible in quarterly basis. So first thing I wanted to understand how much expense has been done in this quarter on 502?

Venkataraman Sundar This quarter on 502, the total money spend is close to $1.5 million.

Ranvir Singh And secondly we will capitalize this expenses once this is out-licensed or how we will deal with it or we will show it as the operating expense in that subsidiary?

VenkatJasti See, there is no capitalization in R&D activity, this is for a separate entity by itself which is a 100% subsidiary and Suven is investing into that, so the main company is investing into this subsidiary, so the subsidiary will have the P&L and into that consolidation will happen. On yearly basis consolidation will happen provided the subsidiary remains as a 100% subsidiary.

Ranvir Singh So initially we had a plan of Rs.10 million on this 502 and out of this I think Rs.1.5 million in this quarter and last quarter we had Rs.28 crore. So that is total we have done so far?

Venkat Jasti So far Rs.5.5 million is spent from the beginning till now.

Ranvir Singh In specialty chemical business, what we have received in this quarter is likely to continue rest of the, as in the run rate is likely to be maintained, so whether we have any plan to do capacity expansion there or we will remain with that capacity and that run rate is going to continue even in FY18 also?

Venkat Jasti No, the capacity which we have created in Vizag plant is capable of taking care of another 50% of the growth if it happens. Right now I do not see that possibility for this compound. I think other than 5%-10% not much will be there in the growth because it is a saturated market.

Ranvir Singh In FY17 we are talking?

Venkat Jasti Yes.

Ranvir Singh And apart from this are we doing any other CAPEX also?

Venkat Jasti No, as I was telling to Purvi, we are going to do a CAPEX in the USFDA approved plant based on the requirements of the NCE based innovators to deal with the high potency compounds. So we will be putting a new block with a capex of Rs.50 crore.

Ranvir Singh And in CRAM side we have that repeat orders partially and then normal CRAM. So on blended basis whether margin is in line with the overall CRAM business, I mean in repeat order also the margin is like this CRAM business or it is the lower or higher?

Venkat Jasti It is usually higher because the commercial and volume based activities, so it will be usually higher than the earlier phase but not higher in the prelaunch EBITDA margin because the prelaunch is still R&D pricing but when it comes to the commercial it is a separate pricing which is less by 30%, still the margins are equal to the regular early stage CRAMS project.

Ranvir Singh So even if that product goes commercial on regular basis and we get opportunity to supply, then also the margin would be same or margin will decline as the volume increases?

Venkat Jasti See in the earlier stage Phase-1, Phase-2 molecules the margins are around 30% and when it grows to the Phase-3 and prelaunch quantity because of the volumes the margins will go up and when it comes to the commercial, so it will revert back. More or less the same level as the original CRAMS pricing, that is around 30% EBITA margin**.**

Ranvir Singh Okay but much lower than what we had in exhibited, that is what I was asking?

Venkat Jasti Yes.

Moderator Our next question is from the line of Afzal Mohammad from Karvy Stock Broking. Please go ahead.

Afzal Mohammad Are you still continuing to recruit patients for Phase-2a of 502 molecules?

Venkat Jasti We have to recruit total of 537. So far we have only recruited 70 patients and the recruitment is going on and yes we have to recruit more and 15% only we have recruited. We have to recruit 85% more.

Afzal Mohammad How much do you plan to spend on clinical trials expense for the remaining 3 quarters of FY17 on 502 molecule?

Venkat Jasti The total spend we have estimated to be about $25 million, out of that $5.5 million is already spent. So it is difficult to tell on quarter-on-quarter basis. It also depends on the number of patients enrolled and all this stuff but the total guidance is $25 million.

Afzal Mohammad And this entire $25 million will be spend only for Phase-2a?

Venkat Jasti Yes.

Afzal Mohammad And you plan to complete it by the end of 2017 calendar year?

Venkat Jasti Yes.

Afzal Mohammad How much is your current cash position sir?

VenkatJasti Rs.250 crore.

Afzal Mohammad And this will be primarily used for 502 molecule?

Venkat Jasti It is both ensuing CAPEX which Rs.50 crore is going towards this expansion in the Pashamylaram unit by one more block and rest of it for the 502.

Moderator Our next question is from the line of Purvi Shah of Sharekhan. Please go ahead.

Purvi Shah This is regarding the repeat business like you said, are we expecting around Rs.30 crore. So going forward do we see this as again as a lumpy kind of thing or do we expect this to streamline in the future as a normal base business?

Venkat Jasti Even the repeat business depending on market take off and also their manufacturing cycle timings there will be lumpiness. It cannot be a base and over year-on-year basis more or less, but not a quarter-on-quarter, same quarter or same thing cannot be there.

Purvi Shah Okay because I guess we discussed earlier that if it is commercialized so then there are a couple of years where you get this apart from the business?

Venkat Jasti That will come. What you are trying to say is it will be the same, if you are talking about the quarter-on-quarter basis, no it is not. But year-on-year basis yes whatever the amount that are there provided for the molecules based in the market.

Purvi Shah Right sir. So basically what I am kind to say, the Rs.30 crore this year we could say on year-on-year basis there would be some business that would be coming in the next year also but it is difficult to quantify the amount at the moment as well as in which quarters it would come in, am I right?

Venkat Jasti Exactly right.

Moderator Our next question is from the line of C Srihari of PCS Securities. Please go ahead.

C Srihari Firstly I wanted to know if there is an element of seasonality in your business because the topline was close to Rs.170 crore in Q4, secondly for the 2 lead molecules, commercial molecules, is there any peak sales estimates that have been worked out or something like that or thirdly the high potency block that you are setting up what is the kind of visibility for that, do you have any tentative order book or something for that?

Venkat Jasti Yes, I will take the last one first. The high potency block is a must for handling the compounds which are in the pipeline of the innovators. The requirement has been since the toxicity is not well established even though it is there, even a sugar compound. Say for example they would like to treat as a high potency compound. So this is a requirement rather than the visibility for you to continue to be in this business for the innovators, it means you have the additional capabilities built into the system, that is what we are doing. Eventually when we do this I think the things will certainly, at least some opportunities will come. But not right now because it will take another 12-15 months before we can build and validate the facility.

C Srihari So you meant to say that there is some kind of a business loss because we have do not have this in it right now?

Venkat Jasti There is nothing like business loss. This is a new requirement they are asking so that the business opportunity will be more. It is an emerging trend and we are in the frontend of the emerging trend rather than the backend of it. So we are building proactively for the future business opportunities based on the regulatory requirement of the innovators, not the regulator requirements of the FDA.

C Srihari But do you have any kind of ballpark figure. Let us say 1-3 years what is the kind of top line you may expect to generate from this block?

Venkat Jasti I cannot tell you 2-3 years from now. But it will be a good growth opportunity. So I cannot quantify that. As I said unlike generic this can never be a quarter-on-quarter basis you can think of and also there is seasonality and at the same time margins are not based only on volumes but also on the product mix. The later stage molecules we supply will have a better margin compared to the earlier stage molecules.

C Srihari So the benchmark for us should be the top-line of Rs.500 crore you had last year?

Venkat Jasti Yes.

C Srihari And margin for let us say between 25-30%, should one say?

Venkat Jasti Yes. 25% and the net margins will be 20%-22%.

C Srihari EBITDA margin?

Venkat Jasti Should be around +30%.

C Srihari And secondly about the 2 commercial products, is there any peak sales kind of estimate worked out?

Venkat Jasti By whom?

C Srihari I mean you would have independent reports?

Venkat Jasti Okay, the customer says one of the molecules could be $(+1) billion yearly sales. The other customer says about $300 million sales. But that is a big sale.

C Srihari But can you tell me against which products in the market are they pitched?

Venkat Jasti I think these are the given indication for rheumatoid arthritis, the other one is for the depression and diabetes. These are the 3, I mean there is nothing like pitching and they are a new kind of products instead of injectable, some of the them are oral and in case of the rheumatoid arthritis and the other molecules are different mechanism action based indications.

Moderator Our next question is from the line of Deep Master from Enam Holdings. Please go ahead.

Deep Master Just wanted to clarify sir your R&D for the whole year on a consolidated basis was supposed to be about Rs.120 crore, is that right?

VenkataramanSundar It could be close to that yes.

Deep Master You were talking about the margins in the different stage and you said that when a product goes commercial it comes back to about 30% margin. But the volumes would be in multiples of prelaunch quantity right?

Venkat Jasti Yes.

Deep Master So in absolute terms your profit would be much higher even if it is at a 30% margin?

Venkat Jasti Yes, because if volumes goes up and the profit goes up

Deep Master Right and just on the facility the block you are putting up for Rs.50 crore, is this sort of a near-term revenue opportunity or is this something for the medium-term?

Venkat Jasti See, like a patent which is needed for the NCEs to have the post-clinical factors as an exclusivity, similarly to do the new business opportunities in the emerging regulatory scenario from the innovators you need to have this capability built in. Otherwise existing customers will desert you because every time some kind of new regulation requirements comes in, you have to meet those requirements, so that is why we are doing this. Naturally it will yield the better opportunities to work on more molecules, so you do not lose the customers, you do not have the capability to do things, not the capacity here we are talking, it is the capability to do certain things.

Deep Master Sir your product mix could improve over the medium-term? You could handle more complex products, is that the right understanding?

Venkat Jasti The way the innovators are looking at things in the scenario, same product which we are doing day in, day out that only they are saying okay within the next 18 months, I want you to do in this kind of an atmosphere because we have not established the long term toxicity and that is our thought process is to have the highest potency based activity in handling the molecules, so that is what they are telling. So we are following that. But at the same time naturally the more and more complex molecules also can go into that without having any additional structure because we are willing to meet the highest requirements.

Deep Master Correct but hypothetically if you were using the same block for a current molecule for your customer, you could be charging a higher price, right?

Venkat Jasti For the new block additional pricing will come into picture.

Deep Master So what is the sort of payback you would be looking for?

Venkat Jasti It can happen even in one year it depends on the product.

Moderator The next question is from the line of Anupam Gupta an Individual Investor. Please go ahead.

Anupam Gupta Can you give the breakup for the specialty chemical revenue and CRAMS revenue this quarter?

Venkat Jasti The specialty chemicals is Rs.53.3 crore and the rest of the them is CRAMS.

Moderator Our next question is from the line of Purvi Shah of Sharekhan. Please go ahead.

Purvi Shah So sir this is regarding to one of our ANDA moleculewhere you are getting some royalty payment, so if you could just tell us what is it in this quarter and which line item does it highlight?

Venkat Jasti This is a Rs.3.68 crore royalty this quarter. It is in the CRAMS only.

Purvi Shah So we also have some plans for developing some other few ANDAs as well. So what is the status there right now?

VenkatJasti That is 1.5-2 years away before it matures.

Purvi Shah So if you could just quantify some numbers as to what number of ANDAs we are working on and how many do we expect filing in this year or next year?

Venkat Jasti We expect to file another 2 if not 3 molecules this year and we are working on 8 more molecules in total.

Purvi Shah If you could just highlight one thing is that the various patents that we are getting right now, would it be working out in the same fashion the way Malathion worked out for us?

Venkat Jasti What is it again, can you tell me?

Purvi Shah The question was that the various patents that we have been announcing on and off, I mean we have received a lot of patents across lot of geographies. So these patents are for the NCE molecules and how does the securing of the patent work out?

Venkat Jasti They are all for the NCE based innovations, we filed these patents and this is not only for 502 but also for all other compounds and these are all useful only after the clinical success of the molecule when it goes to the market. Then we will have that exclusivity. Otherwise you spend all this money if you do not have the patent then any big players can come into the market. For example, 502 molecule the patent is valid 2026 with an addition 4 year time can be given. That is the way it works.

Moderator Our next question is from the line of Amit Kadam of LIC Mutual Fund. Please go ahead.

Amit Kadam Sir my question is regarding our CRAMS pipeline what we have of 117. I just wanted to have your insight or maybe how you assess the quality of the pipeline what we have right now in 2017 vis-à-vis what we used to have somewhere around 99 to 100 molecules in pipeline maybe in year 2013-2014. Just wanted to compare what is the quality, how things have moved in last 3 years?

Venkat Jasti See the quality is if they are still staying in the pipeline that means it is flowing nicely into the development mode. There will not be any difference in quality. There is only the status where we are in and how many are still alive is the question that comes into the picture.

Amit Kadam Okay because the question is here when we were like having a 99 to 100 molecules the growth was more giving some kind of a linearity to the CRAM side where the growth was quite there. Where as in this particular thing like this quarter I understand our business is not a quarter-on-quarter kind of a business, still if you track last couple of quarters as such, if we did not have this specialty thing in our kitty or in our portfolio, the growth in the CRAMS have been a little bit volatile as such, where as our pipeline has actually moved from 100 odd molecules to 117 odd molecules?

Venkat Jasti Okay, there are two scenarios, if you see the '2009-10 global meltdown and until that time people were having lot of molecules in their portfolios. They have cut down the portfolio. Number of molecule has no meaning unless it delivers in the fag-end of the lifecycle of the molecule where the value creation takes place. The numbers are going up means they are still staying in the clinical development. Earlier the molecules may be dying factors, so the numbers may not be there. But you are seeing only in these things which are reported like 117, but there may be 50-60 molecules churning taking place within this timeframe. So that is the way it works. Linearity will not happen. The numbers alone do not give you the top-line growth. Sometime the one molecule can give you 50% of the business also, so it is the product mix that gives you the growth. The molecules staying as long as we are increasing our business year-by-year, molecules as long as they do not die they keep increasing the numbers because every year we are adding a new number. The molecules which are having are less, so the numbers will go up.

Amit Kadam If we do not have that particular thing in, how the CRAMS will be growing because when we wanted to move our phase like 502 from Phase-1 to Phase-2 we did the equity raising to raise capital to show that we fund a Phase-2trial of 502. Now we have this 4010 in Phase-1 and another molecule in Phase-1 which by next year will be moving into, if everything going good and hopefully it move to Phase-2. In that case we have another Rs.50 crore of CAPEX lined up. So that will be only backed and our internal source of accrual is only CRAMS where we can depend. So then the future of funding of this NCE molecules and then our regular CAPEX, I just wanted to know where would be the source of funding would be coming from?

Venkat Jasti As far as the QIP we have done is to have a kind of a guarantee that there will not be any cap even though there will be some cyclicality in our business. But as we could see, Rs. 250 crore are there as cash where we have raised only Rs.200 crore. That means we have already spend about Rs.5.5 million, Rs.35 crore or whatever it is. So every quarter we are making some money which is accruing. So by the time the 3031 goes into the Phase-2 clinical trial we have enough money to do that. There is no need for a QIP or additional fund raising. Hopefully by the time 2017 is over and 2018 comes we may have a monetizing opportunity 502 then we do not have to look for any other funding. Right now the accrual compared to 3

years ago is much better and those will eventually give you one Phase-2 compound income every year hopefully.

Amit Kadam Final question on this CRAM industry as such where after like this recession of 2008-09 where industry recovered and there were lot of outsourcing deals where we gained out of it. How is the industry in 2019 as such, is the R&D spend of this large MNC pharma still upbeat or there is some reduction?

Venkat Jasti I think the spending is same but at the same time their focus is much better, rather than having 10 molecules and doing even though everything is successful in doing 1 or 2 into the next phase now only they are doing 3 or 4 if they are good and more into the next level, they are seamlessly transiting the project. So the focus is good, the funding is same there is no reduction in the funding and the less number of molecule and that gives you a better opportunity, better traction.

Moderator Our next question is from the line of C Srihari of PCS Securities. Please go ahead.

C Srihari I wanted to know little more about the high potency block that you are talking about, vis-à-vis let us say run of the mill block how will this be different in terms of let's say lay out, extent of automation and stuff like that?

Venkat Jasti It will be the same as the regular cGMP block but what happens here is all the people will not be touching any products whatsoever, it goes through the glove boxes and goes to the classified areas and some kind of automation where everything is transmitted through the chutes or something else so that the people will not be exposed to either vapors or the dust, that is fully contained operations. That is the kind of automation we will be involved with, that is why it is costing double the value.

C Srihari So conventional block will cost around Rs.25 crore?

Venkat Jasti Yes.

C Srihari It is bound to have many cells, may be 3-4 separate cells?

Venkat Jasti Yes, it is like any production block like part of the intermediate, part of the final product complete process systems. But even each of the intermediate blocks, it is not worked using a centrifuge or kind of thing. Everything is contained and transported through mechanically rather than the handling by scooping and all those things will not be there. So people's exposure will be limited to maybe 5%.

C Srihari What is the breakeven that you might have thought of, based on our calculations what is the kind of, how many years breakeven do you foresee?

Venkat Jasti Generally the breakeven is in one year. You do not look at this way. When you are doing the continuation of the business where you are in, you need to meet the global requirements, you cannot say breakeven for everything but at the same time this breakeven can happen with one product, one campaign because it is value-added products unlike generics.

C Srihari So you are basically looking at it from a holistic perspective

VenkatJasti That is right, exactly.

Moderator Our next question is from Ranvir Singh of Systematix Shares. Please go ahead.

Ranvir Singh Sir we had seen that successful years FDA instruction for our formulation API unit at the Pashamylaram. So can you give an outlook whether we are planning to do some formulations in US?

Venkat Jasti USFDA approvals is not today. Since 2004 it is happening and it is a repeat only and already we are doing formulation in USA, already one ANDA that we have received Rs.3.68 crore royalty for this quarter.

Ranvir Singh Sir that was Malathion but otherwise 8 molecules we talked about that we are working on so that will be rolled up next 2-3 years that what is the plan?

Venkat Jasti Yes, in the years to come.

Ranvir Singh And just to recap that exhibit batches we have supplied for diabetes and rheumatoid arthritis, right?

Venkat Jasti Rheumatoid arthritis, diabetes and depression.

Ranvir Singh Okay, all the 3 was exhibited batches and current repeat order is from rheumatoid arthritis?

Venkat Jasti One product only, it was rheumatoid arthritis. [Please read as diabetes, not rheumatoid arthritis. Our apologies for the error in miscommunication]

Moderator Our next question is from the line of Vishal Singhania. He is an individual investor. Please go ahead.

Vishal Singhania Sir I had a doubt about these 3 molecules commercialized, the diabetes molecule we have already received the order. So can you give you a clear picture of the other 2 molecules that is RA molecule as well as the depression molecule. Do we have the orders right now and when will it be supplied?

Venkat Jasti The repeat order we have received for the rheumatoid arthritis molecule not for the diabetes and not for the depression. [Please note there was mistake in communication. The repeat order received was for diabetes molecule. Our apologies for the error]

Vishal Singhania And what is the value of the repeat order?

Venkat Jasti As of now we have received Rs.13crore, out of that Rs.11.5 crore has been done in 1st quarter.

Vishal Singhania No sir for the RA molecule?

Venkat Jasti That is what I am saying.

Vishal Singhania Okay sir as of financial year 2017 what is the total revenue that can be achieved from these 3 molecules.

Venkat Jasti Our expectation is about Rs.90 crore and as of now we have received Rs.30 crore orders and as I said the visibility is not there at this time but we have still 8 more months to go and we expect to receive some more quantities.

Vishal Singhania So will it be supplied also in financial year 2017 or will the supply drop down to financial year 2018?

Venkat Jasti It should continue to financial year 2018 also because once these repeat business comes the molecules until their expiration date which may be 2020-2022 or 2020-2023 we will keep supplying whatever the requirements they have depending on how they still perform in the market.

Vishal Singhania Okay and about the depression molecule we do not have any clarity, right sir?

Venkat Jasti No there is not much. That is a small molecule, very small volumes. Even when we did the prelaunch also it is a small quantity.

Moderator Our next question is from the line of Prem Jain of Kpyvus Capital. Please go ahead.

Prem Jain How this SUVN-502 is progressing in US and if it has completed a Phase-2Atrial successfully and how much time it will take to move to Phase-3 trial, plus do we generate some revenues when it will be moved to Phase-3?

Venkat Jasti This 502 trial will be ending roughly in 2017 and when the data is good before it moves into the Phase-3 itself you will make money so that gives monetization by out licensing because Phase-3 is not envisage by us at this time because that will cost you around $200 million-$300 million. So that has to be out-licensed. Naturally when you out-license it you get the licensing fees after that success based milestones and when they launch it we get the royalties throughout the life of the product.

Prem Jain How much time it will take from moving to Phase-2A to Phase-3?

Venkat Jasti It does not take much time because if it is established, it is a positive results and we have money in queue and essentially three months to four months filing the data to the IFDA and you can return to Phase-3.

Moderator Our next question is from the line of Sandeep Omkar of SBI Capital Market. Please go ahead.

Sandeep Omkar You have been going through this investor conferences and discussing the results of the recent test that you have been doing in Phase-3, so how has been the response for this SUVN 502 and the results that we have been discussing with some prospective investors for this particular molecule?

Venkat Jasti It is tremendous but at the same time has no value. They want to see, everybody has an interest there is 8 serious interest for this molecule but at the same time they are all looking for the proof of concept data that is actually working on the patients and that will come only fag-end of 2017. So this is not only showing our existing molecule 502 but also telling what the molecules we are working. So this is a natural phenomenon in research based activity, you have to tell what you are doing and also you have to find out what all things are going on in the world so that you can compare it in the same way what are the things you have to concentrate next into the way it works.

Moderator Our next question is from the line of C Srihari of PCS Securities Please go ahead.

C Srihari Can you please share some figure regarding the sub-therapy of the RA molecule?

Venkat Jasti What do you mean by sub-therapy?

C Srihari It is for rheumatoid arthritis, one may say you have, may be COX-2 inhibitors is one class of this belongs to which class?

Venkat Jasti See, I am supplying not a molecule. I am supplying an intermediate only. So I do not have the knowledge of what class they are doing it at this time.

C Srihari So you are not aware of the finished products?

Venkat Jasti We are aware of the finished products but it is a different reaction and their clinical focus because it can be used for other indication also. It is replacing an injectable molecule versus oral. That is all now.

Moderator Our next question is from the line of Nandalal Padhee. He is an Individual Investor. Please go ahead.

Nandalal Padhee Sir what is the specialty chemical turnover?

Venkat Jasti It is Rs.53 crore.

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

Venkat Jasti Thank you everyone for tuning in and as we have mentioned in the earlier remarks things are moving very well and hope to continue the same trend and the clinical development is also taking shape very nicely and we hope to achieve the results but it is not in the short run but in long run which is about six to seven quarters from now. So with this I thank all the people who have tuned in and any clarifications can be had from our people anytime. Please let us know. Thank you.

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