



Suven Life Sciences Limited

Q2 & H1 FY18 Conference Call Transcript

November 13, 2017

Moderator Ladies and gentlemen, good day and welcome to Suven Life Sciences Limited Q2 and H1 FY18 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 * and then 0 on your touchtone phone.

I now hand the conference over to Mr. Rabindra Basu from CDR India. Thankyou, and over to you, sir.

Rabindra Basu Thank you. Good day, everyone and thank you for joining us on this call to discuss the financial results for Q2 and H1 FY18 of Suven Life Sciences. We have with us Mr. Venkat Jasti, Chairman and CEO and Mr. Venkatraman Sunder, Vice President, Corporate Affairs on this call.

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

Venkat Jasti Thanks everyone for tuning in for our second quarter results. As you could see from the results, it is a mixed bag for this quarter. As you know, the growth in revenue is down by close to 24%, whereas the PAT is up by around 7% for the quarter with the EBITDA margins of plus 44%. The reason for this aberration is the downward growth of the Specialty Chemical which became generic in some of the territories globally and the volumes have come down and the estimate given by our partner is that there will be a de-growth of 25% in its sales. So, we expect in the range around Rs. 55 crore may be affected during the year total [of specialty chemicals] put together.

The CRAMS for this quarter including the commercial is around Rs. 91.7 crore whereas the Specialty Chemical is only Rs. 5 crore. But if you see the half year, revenues are almost equal to last year whereas the growth impact is up by 4% and we expect the second quarter [half] is a little bit better in terms of both topline and bottom-line as per the visibility today and we expect finally the growth on CRAMS will be around 10% on Rs. 262 crore of last year CRAMS number.

With commercial pitching in, I think we will be closing the last year's number by about 5%-10% on topline. In respect to the bottom-line, it will be [growth] close to

20% compared to the last year. So this is the way it is going on as far as the revenues are concerned and the CRAMS business is concerned.

With respect to the innovation, as a matter of fact from today onwards there is a Society for Neuroscience conference that is happening in Washington DC where eight of our scientists are there presenting their papers. The main thing is SUVN502, Phase-2 with 537 patients to be enrolled. As I said last time itself it is going a little slow, but now the speed has picked up a little bit. So far, 336 patients, 62% of the required number, have been enrolled and we expect to finish the study sometime in the first quarter of 2019. Then only any opportunity to monetize will happen. As you know, it is a double blind study. We will not know anything about the efficacy, but the safety is always monitored by a third party that is Drug Safety Monitoring Board [DSMB]. They met last month for a second time and they are very happy with the way things are moving without having any serious side effects related to the product and they asked us to continue the study without any modifications which is a very good thing in the current scenario of failure of candidates because of the toxicity and efficacy that we do not know until end of the study.

People may be wondering what is happening with the competitor molecule, RVT-101. Everybody is expecting data to be presented, some positive data. Unfortunately, the results came out last month and it did not fare well on the main parameter which is ad-hoc call as we call it and the Phase-3 study failed. So there are not many candidates left in the fray for the symptomatic treatment of Alzheimer's disease. Suven is one of the candidates still hovering around. From the beginning, we know our safety margins are very high compared to all other molecules, [as] so we keep telling you all the time and we hope to get positive results and that we will know only in 2019.

The second molecule, G3031, we will be entering into Phase-2 clinical trials sometime in 2018. Right now, we are working with our key opinion leaders [**to decide**] on what disease it should be targeted because it is a cognitive effect again. So should it be on Parkinson, should it be on narcolepsy or should it be on cataplexy or some other disease other than Alzheimer's because we have a big candidate for Alzheimer's already existing which is a long-drawn process and a long reach study. So that will be known and hopefully will be starting the Phase-2 study sometime in the first quarter of next year.

I think with this, I turn over to the participants to ask questions and get clarifications from us. Thank you.

- Moderator** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Rashmi Sancheti from Anand Rathi. Please go ahead.
- Rashmi Sancheti** So just would like to know more about Specialty Chemicals. This time, the sales have dropped and for the entire year, you are saying that there will be 20%-25% de-growth from FY17 for Specialty Chemicals? So what are the reasons for the drop in sales, is the demand for the product coming down or anything if you can give more color on it?
- Venkat Jasti** As I mentioned in my earlier statement, it became generic in some of the territories. Naturally when they lose patent, the growth will come down because of the generic competition. That is what happened.
- Rashmi Sancheti** And only one product currently we are supplying right in Specialty Chemical?

- Venkat Jasti** Yes, there is only one product.
- Rashmi Sancheti** So year-on-year decline we would be seeing in FY19 and 20 also because of the generic competition or it will get stable after that?
- Venkat Jasti** According to them, after this 25% de-growth, it should be stable is what they are saying. I think they will know only maybe next year, but until now it is only 25% de-growth and that should continue.
- Rashmi Sancheti** And sir in core CRAMS business, how much was the order worth from rheumatoid arthritis?
- Venkat Jasti** About Rs. 16 crore.
- Rashmi Sancheti** And for the entire year, any guidance you are giving?
- Venkat Jasti** I gave around Rs. 70 crore.
- Rashmi Sancheti** That you maintain it, right?
- Venkat Jasti** Yes.
- Rashmi Sancheti** And last question related to CAPEX, how much CAPEX we have spent in first half and how much CAPEX guidance you are giving for FY18, 19 and 20 and where it will be allocated?
- Venkat Jasti** Mainly as I mentioned last time itself we have an additional block being built to take care of the new requirements of high potency compounds which will be roughly to the tune of Rs. 120 crore and that will be spent sometime this year at some point and also spillover into the next financial year also. Bulk of things will be spent in the next 2 quarters. We have spent as of now around Rs. 25-30 crore because orders are being placed and the equipment will be coming and most of it will be spent in the next 2 quarters.
- Rashmi Sancheti** So you mean to say that in FY18, it would be around Rs. 100-120 crore kind of CAPEX?
- Venkat Jasti** Yes, Rs. 90 crore to Rs. 100 crore in FY2018 and some spillover into first quarter of next year.
- Venkatraman Sunder** Actually, we spent about Rs. 30 crore as of now. Maybe in another 6 months we may end up spending about another Rs. 30 to 40 crore. The balance will spill over to the next year possibly.
- Rashmi Sancheti** Okay. So Rs. 50-60 crore for FY18, we can assume and then FY19, we can assume again the maintenance CAPEX as well as the spillover of Rs. 20-30 crore.
- Venkat Jasti** The [overall] CAPEX this year it will be around Rs. 100 crore. Next year also in the same range.
- Moderator** Thank you. We will take the next question from the line of Jeevan Batwa from Candyfloss Advisors. Please go ahead.
- Jeevan Batwa** Just two questions. One is rightly how many patients we enrolled for Phase-2 till now?

- Venkat Jasti** 336 are already enrolled.
- Jeevan Batwa** So 200 patients more to be enrolled
- Venkat Jasti** That is right.
- Jeevan Batwa** And by when you think we should be able to do that?
- Venkat Jasti** The last quarter of 18, the enrollment will take place, but then the 19 first quarter, it will be finishing the study, first quarter or second quarter. Not first quarter, calendar year we are talking about. By June certainly, we should be able to have the data.
- Jeevan Batwa** By October I think we should be able to get the results.
- Venkatraman Sunder** Very much before that.
- Venkat Jasti** Hopefully before that of 19 results.
- Jeevan Batwa** No, you are talking of October 2018 or October 2019?
- Venkat Jasti** No, that is enrollment. After enrollment, it takes 7 months for the trial for the last patient out, then only the lock-in of the data happens. After that, 3 months it takes for us to decipher the results.
- Jeevan Batwa** Right. So you are talking of October 2018 or 2019?
- Venkat Jasti** Data release is sometime in the first or second quarter of 2019.
- Venkatraman Sunder** When we close the clinical trial by next year 2018, it takes about another 6 to 7 months to complete the trial which will be out of July 2019, the last patient will be completed. Then within a month or two, the data can be released.
- Moderator** Thank you. The next question is from the line of Ranveer Singh from Systematix Shares & Stock. Please go ahead.
- Ranveer Singh** Sir, you said that in Specialty Chemical, the de-growth would be for full year you are saying 25% de-growth or for second half?
- Venkat Jasti** For full year.
- Ranveer Singh** Okay. And from there onwards, that would be stable, that is what you are saying.
- Venkat Jasti** Yes, as of now.
- Ranveer Singh** And in this quarter, core CRAMS, was there any one-off or this is a normal run rate?
- Venkat Jasti** We could see the Rs. 5 crore is only specialty chemicals, Rs. 91.7 crore is the core CRAMS. Out of that, the Rs. 16 crore is the repeat order.
- Ranveer Singh** So even excluding the Rs. 16 crore, the core CRAMS comes to Rs. 75 crore. So that Rs. 75 crore is much higher on Q-on-Q, also you see that quarterly only one size of that Rs. 72 crore coming up in particular quarter. So I just wanted to

understand that there was some other one-off in this quarter in that core business apart from that commercial order?

Venkat Jasti There is a one-off kind of a thing is there because when we develop a process, we develop an innovative process where we can create intellectual property where we get an incentive. So for one of the products, we got an incentive of a million dollar so that is a one-off. This will give us the benefit only when this molecule goes into the commercial opportunity wherein we get the 50% of the requirements because we created the intellectual property. So this is a one-off as of today around Rs. 6 crore.

Ranveer Singh So going forward, how the second half is going to look like?

Venkat Jasti Second quarter [half] looks better than the first [half] quarter because of the product mix that we have and still some more repeat orders are there for us and the volumes wise, as I said it may be 5%-10% growth total on the topline and we expect close to 20% growth on the bottom-line, total based on the last year numbers.

Ranveer Singh You are talking about including all the businesses?

Venkat Jasti Yes.

Ranveer Singh And for repeat order particular, what is the annual how would be the number for FY18?

Venkat Jasti As of now, we have a guidance of around Rs. 70 crore. It may go up a little bit which we have not got any indication as of today, but it can go up another Rs. 10-15 crore.

Ranveer Singh That on SUVN-502, is there any progress on out-licensing related matters

Venkat Jasti As I said, it is not possible to out-license the candidate until we have the proof of concept because as I said for a different molecule, they want to see the results before they put any money on it. That is why it can be done only post the results which is in 2019 calendar.

Ranveer Singh And in this quarter, the kind of increase in gross margin or EBITDA margin, it can be attributed to the product mix, but I wanted to understand if you could just give a ballpark number that what kind of margin normally we make in specialty chemical and commercial and repeat orders and then the core CRAMS? Core CRAMS yes, would be volatile, but at least for repeat order and specialty.

Venkat Jasti As I said, in general our core CRAMS plus 30% EBITDA margins but because of the better product mix this year we expect as for half year it is around 39%, but certainly it will be close to that range, but certainly plus 35%.

Ranveer Singh You are talking about total EBITDA, EBITDA margin on totality. Just I wanted to segregate so that I could understand next time when the product mix changes that will help us understand a bit how margin actually changes

Venkat Jasti To get the mix based on what you call specialty chemicals [excluded], then it will be plus 40% for the EBITDA margins and the core CRAMS based on the next 6 months guidance.

Ranveer Singh How much?

Venkat Jasti Plus 40%.

Moderator Thank you. We will take the next question from the line of Hareesha Kakkera from B&K Securities. Please go ahead.

Hareesha Kakkera So you have guided for a de-growth in the Specialty Chemicals for FY18. So my question is despite that we are expecting a growth of 10% in the topline.

Venkat Jasti Not on the total number, madam, on the CRAMS side 10% growth including EBITDA. The total number is going up by a little bit around 5% because whatever the de-growth has happened, the repeat order has compensated that.

Hareesha Kakkera Sir, what is the consolidated R&D spend for the quarter?

Venkat Jasti The consolidated R&D for the quarter is about another \$2 million for this quarter.

Hareesha Kakkera USD 2 million on Suven-502?

Venkat Jasti Yes, that is all.

Moderator Thank you. We will take the next question from the line of Charulata Gaidhane from Dalal & Broacha. Please go ahead.

Charulata Gaidhane My question pertains to the inventory. Is there some one-off or increase in the inventory in this quarter?

Venkat Jasti The Specialty Chemical inventory is only one that will go into the big sales.

Charulata Gaidhane Are the raw material cost on the lower side?

Venkat Jasti Yes, because of the product mix, high value products.

Charulata Gaidhane But inventory component is quite high, right?

Venkat Jasti Yes, because our inventory is only after finishing whatever value, you are seeing the value, after finishing things only it can spillover [from work in process] into next quarter, so you see that inventory, but after one month you will not see these numbers.

Charulata Gaidhane Okay. What about R&D expenses?

Venkat Jasti R&D expenses is going to be same as last year around Rs. 60 crore total for the year.

Charulata Gaidhane So Q-o-Q there is...?

Venkat Jasti Yes, I mean there will be some aberrations because it will not be even because sometimes it goes into next quarter. So although some quarters may look simple as half year, but at the same time our guidance is sort of same number as last year.

Charulata Gaidhane Okay. So on an annual basis what type of EBITDA margin would you expect for FY18?

Venkat Jasti 35%.

- Moderator** Thank you. We will take the next question from the line of Jeevan Batwa from Candyfloss Advisors. Please go ahead.
- Jeevan Batwa** As per our press release, we have two projects in Phase-3. So any timeline when you will be able to complete the phase for these two projects?
- Venkatraman Sunder** The projects which are there in the Phase-3 has been there for about quite some time. One was added only about a couple of quarters before.
- Venkat Jasti** We will know I think sometime in the first quarter of next year on one product. Second one will be continuing. So we are only expecting the result of the one product which should be sometime in the first quarter.
- Jeevan Batwa** Okay and how big would be the product?
- Venkat Jasti** We don't know yet.
- Venkatraman Sunder** Difficult to say from our end.
- Moderator** Thank you. The next question is from Ranveer Singh from Systematix Shares and Stock. Please go ahead.
- Ranveer Singh** Just I see that inventory which has increased in this quarter, is this mostly related to Specialty Chemicals?
- Venkat Jasti** Yes.
- Ranveer Singh** So is there any chances that we need to write off inventory in that also?
- Venkat Jasti** In Specialty Chemicals, it goes to various countries, it will be seasonal for some countries, some countries it will not be same like a medicine it goes every quarter. So some quarters it will be higher, some quarters it will be less. So half of the orders will be fulfilled in this quarter and next half will be fulfilled in the last quarter. So there will be no write off for sure because they have already given guidance, so we don't make that much quantity ahead because this volume we came to know recently that is why this buildup of the inventory has taken place.
- Ranveer Singh** Okay. And this decline is only due to pricing because the pricing has been low or volume has also been cut down?
- Venkat Jasti** Naturally when a generic sample is into the market, one is, they will lose some more volume and additionally, the pressure on the pricing will come but also will affect us around 5% to 7% going forward.
- Moderator** Thank you. We have the next question from the line of Hareesha Kakkera from B&K Securities. Please go ahead.
- Hareesha Kakkera** Can I have the breakup for this quarter, the segmental breakups of revenue?
- Venkat Jasti** Yes, Rs. 91.7 crore is the total CRAMS, out of which Rs. 16 crore is the repeat business, Rs. 5.19 crore is the specialty chemicals and Rs. 7.21 crore is the contract technical services.
- Hareesha Kakkera** Okay. So the repeat business is you mean the commercial launches?

- Venkat Jasti** Yes.
- Moderator** Thank you. We will take the next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.
- Chirag Dagli** Sir, has there been no sale for the launched molecules, ex of the rheumatoid arthritis molecule?
- Venkat Jasti** This is the one what we are telling. Last quarter, we sold about Rs. 25 crore, this quarter Rs. 16 crore. And there is another pending order of about Rs. 30 crore.
- Chirag Dagli** So outside there were couple of other molecules as well, right?
- Venkat Jasti** I think we are expected to get small quantities hopefully in the first quarter. So we will know by then.
- Chirag Dagli** First quarter of next financial year?
- Venkat Jasti** Yes.
- Chirag Dagli** And sir just to be clear on your guidance, you said on an overall basis sales could be plus 5%-10%, this is after making in the decline in specialty chemicals. And there was a PAT number also that you were trying to allude to, sir, what was that sir, 20% on an overall basis?
- Venkat Jasti** Yes.
- Chirag Dagli** This is after again taking in the specialty decline?
- Venkat Jasti** Yes.
- Chirag Dagli** But this is on an overall basis, not just for the core CRAMS?
- Venkat Jasti** No, overall [Yes].
- Chirag Dagli** And sir on the core CRAMS, ex of the specialty, ex of the services business, if you can give us some sense of how business is looking. Is there any change in trend, is this...?
- Venkat Jasti** Trend is same. There is no change in the trend. It is looking good, but the only thing is special molecule in the clinical trials, it will give us better opportunity to serve the products. So there is no change as of today, [and it] looks good.
- Chirag Dagli** As we look at this year and the next, are there any molecules which look to be entering either Phase-3 or in commercial stage?
- Venkat Jasti** Yes, we said that one product which is in Phase-3 we will be knowing about the fate of that molecule sometime in the first quarter next year. And the others we dont have any visibility as of today. Nobody told us anything that is moving into Phase-3.
- Chirag Dagli** First quarter of next financial year is when you expect this one molecule clarity over whether that gets into Phase-3?

- Venkat Jasti** That is right. No, that will finish Phase-3 in a positive note.
- Moderator** Thank you. The next question is from the line of BT Vainatheya, an Individual Investor. Please go ahead.
- BT Vainatheya** I would like to ask a question which is a little different from the others, I was inquisitive about it. We have 3 subsidiaries, Asian Clinical Trials Private Limited, Suven Life Sciences USA LLC which you created for SUVN-502. And there is a third one, Synthon Chiragencies Corporation. Are these balance sheets of these associated with sales?
- Venkatraman Sunder** See, the Synthon Chiragencies was the acquisition of Assets way back in 2003, that was acquired through the company called Suven USA LLC. And it was not an independent company, it is part of the Suven USA LLC. That got closed in the sense that we started the USA branch office way back in 2006. At that point of time, we never felt that LLC should continue the business, so all the business has been transitioned directly into the Suven India. So that is not there anymore and the second thing what we talked about Asian Clinical Trials, Asian Clinical Trials was merged with Suven Life Sciences way back in 2007 and it is part of Suven. So that is not a subsidiary anymore. And then you are talking about which one.
- BT Vainatheya** Other one was Suven Life Sciences USA LLC, I think it was created for that 502?
- Venkatraman Sunder** No. That is not for 502. For 502, the company name is Suven Inc [now name changed to Suven Neurosciences, Inc, a Delaware Company]. It was created in 2015 for exclusive clinical trial development program of SUVN-502.
- BT Vainatheya** So we don't have anything like right now as Synthon Chiragencies Corporation at all?
- Venkatraman Sunder** No. We don't have anything. Other than Suven Inc [now Suven Neurosciences, Inc.] as a subsidiary, we don't have any other subsidiary at this point of time.
- BT Vainatheya** Okay, because it shows up whenever you google it, it shows up.
- Venkatraman Sunder** Google doesn't update it because it has been there in Bloomberg and all those places. So we tried to inform even [many including] Thomson Reuters in their database, but then you know very well that these things will be there always [on web].
- BT Vainatheya** My another question sir, based on that failure of Axovant's molecule and with those patients now, I think they had enrolled more than 3,000 to 5,000 patients of Axovant on this one. Now their patients basically, are they now interested in enrolling themselves with Suven and how long does it take for that particular chemical which was injected into their body for testing and what is the period after which we can take them?
- Venkat Jasti** Usually after any clinical trial if they participate, they have to wait minimum of 6 months before they can transfer into any other new clinical trial for the same indications and with respect to the Axovant, those patients are not going to be enrolled in Suven study because theirs was for mild patients. Most of them are mild patients, mild to moderate. So our studies are for moderate patients, very few people will qualify into this one. But anyway not only in this study, but all the other studies are being shut down because of not having a good efficacy and that is why a little bit speed has picked up in our enrollment.

- BT Vainathey** Can we then do it faster? If the patients get enrolled, we have the funds ready for it.
- Venkat Jasti** Our patient population is different. Our exclusion criteria are different, so it has to be homogenous. So we have put lot of restrictions, so that we can get a strong data rather than a wishy-washy data. So that is why it is picking up, but we don't know how fast it can be. But we are hoping that it will be faster, but as of today the guidance is we have met in the last week only regarding this with the CRO and some of the clinical trials conference and this is the indication they have given [of] September of 2018 will be under [completing] the enrollment, and after that 7 months minimum to get out of the trial including 6 months treatment, [and] one-month washout period. Then only we locked [lock] the data and then we get the results sometime in '19.
- BT Vainathey** All these trials which actually fail in Phase-3, after they have passed through Phase-2 only they go into Phase-3. I do not know about Axovant because basically I think they fast tracked it or something. I do not understand the exact concept of how they fast tracked it, but in this you mean to say this, the Phase-2 trial data in spite of being positive and these companies taking the risk of going in for the Phase-3 trials and then it fails, like why is it? Basically, I am a little confused as to how do they correlate it then because in a Phase-2 trial, it passes off and in a Phase-3 trial it doesn't.
- Venkat Jasti** Yes, What happens is when a phase 2 trial passes, apart from the statistically significant results, they may also have certain side effect profiles, which sometimes lead to re-think that reducing the dose may lead to reduction in side effects and thereby reduce the dose during next phase, which may lead to not achieving the efficacy as achieved before. Also with respect to other compounds which failed the phase 3 trials, there is a possibility that it did not match the successful phase 2 data of early studies. This may be one of the reasons for failure in phase 3 study, even though they had positive phase 2 data.
- BT Vainathey** And among our international competitors, I don't think so we have a domestic competitor, but in the international competitor who do you foresee as the biggest threat to us.
- Venkat Jasti** There is no threat. Our threat is ourselves. If our data is not good, nothing you can do about it. There is no threat as of now, we are one of the two companies in the Phase-2 for the symptomatic treatment that is happening and they are two different mechanisms. Until now all the mechanisms are in the same range, but this is a two different mechanisms and we don't know where they will end, but we will know the result by mid '19.
- BT Vainathey** Ours is the only chemical which used the Memantine and the other one hydrochloride?
- Venkat Jasti** Yes. This is the only study that takes care of the combination, on top of the combination which is the standard of care now. No other study takes that. So that is a special for Suven also on that basis.
- Moderator** Thank you. The next question is from the line of Charulata Gaidhane from Dalal & Broacha. Please go ahead.
- Charulata Gaidhane** Can you please repeat the breakup of CRAMS?
- Venkat Jasti** Yes. Rs. 91.70 is the CRAMS, out of which Rs. 16 crore is the commercial, Rs. 5.19 is specialty chemical and Rs. 7.21 is the contract technical services.

Moderator Thank you. As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.

Venkat Jasti Yes. Thank you, Rabindra and thank the participants for listening into the earnings queries. I hope I have given the answers and we hope to achieve what we have been saying now around 5% to 10% growth on the topline and up to 20% at the bottom-line growth for the next 6 months and hopefully, the speed will pick up in the enrollment of the patients and also the Phase-2 clinical trials starting sometime in the next year also will take place 3031 in addition to the moving some of the compounds which are preclinical into the Phase-1 study. Thanks everyone.

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