Suven Life Sciences Limited

Q3 FY15 Earnings Conference Call Transcript
February 13, 2014

Moderator: Ladies and gentlemen good day and welcome to the Suven Life Sciences Ltd. Q3FY15 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 at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa of CDR India, thank you and over to you sir.

Gavin Desa: Good afternoon and thank you all for joining us on this call to discuss the financial results of Suven Life Sciences for the quarter and 9 months ended December 31st 2014. We have with us Mr. Venkat Jasti, the Chairman and CEO and Mr. Venkatraman Sunder, VP- Corporate Affairs. Before we begin, I would like 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 of the performance over the quarter and his outlook for the year ahead, sir over to you.

Venkat Jasti: Thanks Gavin and thanks to all the listeners on this concall. We have had our Board meeting and declared our results on the 10th of this month. As you know, we had a revenue growth of about 9% but PAT is down by 11.5% for this quarter and EBITDA is also down by 9% plus odd percent during this quarter. I think in terms of the period in 9 months, the revenue growth is up by 8% and PAT is down by 18% and EBITDA is down by about 14%. As you know, I was telling that this year there is no one-off supplies for these launch quantities which we had last year, hence the profit margins are less. Our guidance for the whole year in terms of the revenue will be to the tune of Rs. 450 crore to Rs. 460 crore, which is almost achieved Rs. 415 crore, so on the revenue side it is a positive signal but on the profit side because of not having the launched products as we have mentioned earlier, the total profit for the whole year would be under Rs. 100 crore but we have already reached Rs. 91 crore. These things are happening because of the Specialty Chemicals mainly in this quarter and we also have very good Crams mix and match products which gave us a better top line and the bottom line also even though we do not have the one offs. And I think as far as the NCEs are concerned, things are moving very well and 502 is in the preparation for starting the Phase-2a clinical trials and for 4010 will be entering the Phase-1 trials soon in the next quarter. Currently 3031 is inPhase-1. So with this, I think I will leave this to the audience so that you can ask questions and I can clarify.

Moderator: Thank you Sir. Participants we will now begin with the question and answer session. We have the first question from the line of Ashish Thavker from AMSEC. Please go ahead.

Ashish Thavker: Sir for the nine months we have almost done around Rs. 90 crore in PAT, so what makes you give a guidance of Rs. 100 crore for the full year, does it imply 4Q would be much lower?

Venkat Jasti: No, I think you did not hear me properly. I said for the whole year, the profit will be in the range of Rs. 90 crore to Rs. 100 crore, we said we already reached that. So it is the plus side even though compared to last year it is less because Rs. 117 crore versus Rs. 91 crore but it is Rs. 111 crore versus Rs. Rs. 91 crore but we are saying it is much better than what we had expected as far as the bottom line is concerned, that means we have almost achieved the total year's bottom line in 3rd quarter itself, that is what I am trying to say.

Ashish Thavker: Sir, can I have the revenues from the Specialty chemical under Taro?

Venkat Jasti: Yes, Taro royalty is around Rs. 3.87 crore and Specialty Chemicals is around Rs. 27.25 crore.

Ashish Thavker: Sir on the margin side, there was a gross margin expansion this quarter because of which EBITDA margins are also healthy, so going ahead what kind of margin assumption shall we incorporate because I believe this quarter we almost did around 37% EBITDA margins, so any color on the same?

Venkat Jasti: See we have given an average plus 30% EBITDA margins because of the product mixes keeps changing, sometimes it will be higher and last quarter it was less as you know. So it keeps moving up and down but at the same time the average will not be less than 10%.

Ashish Thavker: Is it something to do with, we increasing the projects from 99 to 108 and so to that extent would it be fair to assume that most of the projects or at least some of the projects are now moving closer to Phase-2 or rather Phase-1?

Venkat Jasti: You cannot completely say that that is because of that but at the same time, the movement from Phase-1 to Phase-2 has happened an increase by 5 but even though no molecules has moved into Phase-3,the mix has given a better top line and bottom line.

Ashish Thavker: The number of projects, the additional ones that we have added this quarter, so is it possible for you to share as to where the majority of the products have been added, as to which Phase?

Venkat Jasti: No, it will be added only into the Phase-1, whatever is that will be added to Phase-1 only and some of them have died down and some increased, specially now, 1 in Phase-3, 51 in Phase-2 compared to 46 and now 56 in Phase-1.

Ashish Thavker: Phase-1 how much you said Sir?

Venkat Jasti: 56.

Ashish Thavker: Any update on, have you started commercial supplies to the 3 global clients?

Venkat Jasti: Not yet, no.

Ashish Thavker: Any timelines we expecting or are we hearing anything from the clients?

Venkat Jasti: Not yet, we have not heard anything so far.

Ashish Thavker: Okay, so they are still excess in the market situation; that is a fair assumption?

Venkat Jasti: Yes.

Moderator: Thank you. We have the next question from the line of Sriram Rathi from Anand Rathi. Please go ahead.

Sriram Rathi: Sir two questions; one was on the R&D. On the R&D side, till now we have done around Rs. 33 crore this year and I think our guidance was around Rs. 55 crore to Rs. 60 crore for the full year, so going for basically for this year like we still remain or we still maintain our guidance of Rs. 55 crore to Rs. 60 crore for the R&D or there can be some change in that?

Venkatraman Sunder: Sriram, there is one correction which I need to really make. This is not a correction but because of the change in the depreciation policy. What happens is that if you take the exception reporting, there is an actually, about Rs. 7.85 crore of R&D related depreciation, that has been categorize separately, there is a difference in, if you add that actually, total R&D expenditure for up to this quarter is about Rs. 40 crore. So going by that guidance actually, yes we may have about another, I would say Rs. 13 crore to Rs. 14 crores maximum, it may go up to Rs. 55 crore annually as an R&D expenditure, which will be, higher than last year's total of Rs. 47 crore.

Sriram Rathi: And next year also will be more or less in the same range excluding that SUVN 502 expenses?

Venkat Jasti: No, actually do not conclude anything with the proof of concept numbers. This is for the regular R&D, whenever it comes to proof of concept, that will be additional; as we said next two years we will be running about Rs. 120 crores to Rs. 130 crore on account of 502, not this year.

Sriram Rathi: So that is separate, right? SUVN 502 is a proof of concept is separate.

Venkat Jasti: That is separate entry.

Sriram Rathi: And this base will continue to be around Rs. 50 crore to Rs. 60 crore per year.

Venkat Jasti: That is right.

Sriram Rathi: And second thing was on the guidance part; for FY16 we were maintaining our guidance of in line with FY14 profit coming in FY16, but now looking at FY15 numbers, can there be some upside to those numbers or we are still maintaining.

Venkat Jasti: No we still keep the same numbers because we do not have guidance from our customers at this time; we do not want to raise those things. I think we are achieving those things itself is a big task because of the profits that we need to generate.

Moderator: Thank you. Our next question is from the line of Raghuram from Bruceville Advisor. Please go ahead.

Raghuram: Sir just one question on this molecule NCE, this 502, so like I just wanted to understand on the Phase-2 and the Phase-3 developments, when the commercialization of this molecule is likely to happen?

Venkat Jasti: Yes, I mean first of all we have to finish the Phase-2 and then Phase-3, which will be around 4 years. So, it will be 19' the earliest if you can think.

Raghuram: Sir and this expenditure, which you are likely to incur around Rs. 120-130 crore; it is for that molecule alone, right?

Venkat Jasti: Yes.

Raghuram: And what could be, when do we get to know the commercialization of this molecule, like when can we be sure that we will be able to sell it to an interested investor, when is it likely?

Venkat Jasti: Yes, it will be after proof of concept which will be at least 2 years from now.

Moderator: Thank you. Our next question is from the line of Veena Patel from I-Wealth Management. Please go ahead.

Veena Patel: Mr. Jasti, you had recently made a media presence in CNBC after the results, where you mentioned one of the Specialty Chemicals which was supposed to be manufactured at Vizag was manufactured in an out-licensed facility and that had led to higher growth in this particular quarter.

Venkat Jasti: Not only this quarter, these quarters, I meant this year.

Veena Patel: Okay. So, what was the total contribution from this Specialty Chemical?

Venkat Jasti: Total contribution this quarter is only Rs. 27 crore but last of last quarter it was Rs. 69 crore, as this business is lumpy, so sometimes this will come in the first week of next month, in April that will happen like that but this totally have the numbers.

Venkatraman Sunder: As such, it is a total Specialty Chemicals, we had in the first quarter Rs. 42 crore, 2nd quarter Rs. 63.39 crore, 3rd quarter about Rs. 27.24 crore. These are the 3 quarters and combined, this is about Rs. 132.35 crore for all the three quarters this Specialty Chemicals.

Venkat Jasti: Compared to last year, total we have done only Rs. 120 crore. So, that is the reason we are supposed to get this through the Vizag facility but because customer wants ahead of time, some of these steps we have done it outside and we have brought the final steps into the existing facilities and that needs to be relieved, so that we can take more clients projects, when the Vizag projects comes into the operation next year.

Venkatraman Sunder: This capacity augmentation was done mostly for the quarter 2, releasing Rs. 63.39 crore where we have done that is what the majority of the things happened actually.

Veena Patel: Okay so similar growth is expected in this particular Specialty Chemical?

Venkat Jasti: Not similar growth, because growth is relatively same, supply will continue and growth will be about 10% we expect.

Veena Patel: Sir coming to another book keeping question on the Other incomes, in this particular quarter we have got other income of Rs. 2.27 crore.

Venkatraman Sunder: It is a kind of dividends that we have been getting on the investments, income on the investments.

Veena Patel: Sir another question, with regard to the tax rate, we have already been getting the tax benefit on the R&D expenses but going ahead the clinical trial expenses which would be incurring on SUV-502, will also that be eligible for tax benefit?

Venkatraman Sunder: Very good question we really wanted that to happen because much of the expenditure is happening in US. As per the current policy of the government of India DSIR, certification for R&D expenses any expenditure incurred outside is not considered for 200% tax reduction, which means that we may not get that benefit.

Veena Patel: So, from next year onwards what we may be spending around Rs. 120-130 crores will not be eligible for R&D tax benefit?

Venkatraman Sunder: No, see whatever the expenditure is incurred outside but our regular R&D whatever we have been incurring here in India, those things still continue to be like Rs. 50-60 crore whatever we are incurring that will have the same impact of getting the benefit, yet to be but not the one which we are spending for 502. This Rs. 130 crore is spread over a period of 24-30 months.

Moderator: Thank you. We have the next question from the line of Ranvir Singh from Sharekhan. Please go ahead.

Ranvir Singh: Just I was going through that segmental breakup, I see there is a capital employed, there is a huge built up in unallocated assets and liabilities they have been in this quarter, so what does this exactly belong to?

Venkatraman Sunder: That is the investment we made out of the QIP funds. The QIP funds what we have received, Rs. 233 crore is the investment made up to 31st December 2014. That is not allocated to any other segment.

Ranvir Singh: Okay fine, secondly on margin side, despite YOY you have lower margin, I see 37.5% is quite healthy, so how confident we are that this level would be sustainable on we should take it forward?

Venkat Jasti: We keep on telling that this quarter on quarter there will be an up and down on the margins based on the product mix but at the end of the year always it will be plus 30% on the EBITDA levels.

Moderator: Thank you. We have the next question from the line of Purvi Shah from Dalal & Broacha. Please go ahead.

Purvi Shah: Sir I just missed the explanation on the tax rate, if you could just re-elaborate it?

Venkatraman Sunder: The tax rate is more or less likely to be around 28-30%. Right now, it is on an average that is what happening, the only thing what I was answering about Veena Patel's question was like do we get any additional benefits out of the money which we are spending for the clinical trails that is going to happen for 502. It is being spent outside India, as per the current regulations we are not eligible. That is what I was trying to mention. Tax rate will be more or less like; we are reaching almost in the top level.

Purvi Shah: And Sir on the Vizag facility, if you could just update us as to what is the status right now and when do we expect commercialization?

Venkat Jasti: Yes, Vizag facility we will be having this trial run at the end of March or first part of April.

Purvi Shah: Trial run will be in Q1, okay. And Sir just wanted to re confirm, the one off sales in the previous quarter, if you could just tell the quantum again?

Venkat Jasti: There is no one off this year yet, only first quarter not after that.

Purvi Shah: No Sir, Q3 FY14, I am talking of.

Venkat Jasti: No, nothing in this quarter compared to that.

Purvi Shah: I will just rearrange my question, I am saying this year we did not have any of the one off but there were one time sales in the last year same quarter, right?

Venkat Jasti: Yes.

Purvi Shah: So, that quantum was?

Venkatraman Sunder: Last year the same quarter Q3 was Rs. 46 crore, pre-launch quantity. This year we do not have anything.

Purvi Shah: And Sir just this Taro income, we had it Rs. 3.87 crore this quarter, right? And Sir anything in the previous two quarters?

Venkatraman Sunder: Up to now, it is Rs. 10 crore up to 3rd quarter

Purvi Shah: Nine months is Rs. 10 crore.

Venkatraman Sunder: Yes.

Moderator: Thank you. We will take the next question from the line of T Srihari from PCS Securities. Please go ahead.

T Srihari: I wanted to know the growth of the base business, net off one time and your Specialty Chemicals business?

Venkatraman Sunder: If we really talk about the growth, quarter to quarter like a CRAMS, we have done about Rs. 45 crore in first quarter, Rs. 65 crore in 2nd quarter, Rs. 92 crore in 3rd quarter, but if you really compare, particularly CRAMS for the last Q2, Rs. 65 crore this quarter, same last year we have done about Rs. 53 crore. When it comes to Q3, we have done about Rs. 92 crore of this year, this quarter, compared to Rs. 57 crore of last year's, same quarter.

T Srihari: Do you have the figures readily available, what your base business growth would be like, if you net off the campaign business that you had last time around?

Venkat Jasti: Yes, that is what we are telling you. Last year, this quarter October to December, it was Rs. 57 crore, same thing this year is Rs. 92.7 crore.

T Srihari: Okay, that is netting off the one time?

Venkatraman Sunder: It is not net; it is a pure CRAMS, that is nothing to do with the pre-launch quantity. Pre-launch quantity is Rs. 46 crore, additionally last year the same quarter we had; this quarter we do not have anything of pre-launch quantity.

T Srihari: Okay, but it would still have the Specialty Chemicals in both these quarter?

Venkat Jasti: Yes.

T Srihari: That is what I am asking, I mean, if let us say, if you net off the Specialty Chemicals?

Venkatraman Sunder: No, we are saying net off only. Rs. 92.77 crore is CRAMS and Rs. 27.24 crore is the Specialty Chemicals, Rs. 9 crore is the services, including royalty that becomes 129.

T Srihari: Yes, regarding your upcoming Vizag facility, what can be the optimal sales in terms of volumes and value?

VenkatJasti: When you start brand new site, site development itself costs you Rs. 60 crores to Rs. 70 crore with all common facilities. The block which we have, building is only costing about Rs. 45 crore, out of which we can get the Rs. 100 crore turnover eventually, on that block alone. But this is a first part of the activity we started and every year we will be adding some other blocks based on the business propositions.

T Srihari: So roughly it will be 2 times your fixed assets?

Venkat Jasti: Correct, yes at least.

Moderator: Thank you, participants that was the last question, I now hand the floor back to the management of Suven Life Sciences for their closing comments. Thank you and over to you Sir.

Venkat Jasti: Thank you Gavin and all the listeners and we hope to better whatever we have projected and things are moving very well in all directions and no guidance as far as the pre-launch quantity; when are we going to get the repeat business is concerned, but at the same time the Cramp is moving very well. As also, we have surpassed the Specialty Chemicals within 3 quarters, the whole of amount of last year's which will be giving a good push next year also. And with this, I think we are going to exceed our earlier projections of less than Rs. 100 crore profit and less than Rs. 500 crore of top line growth, at least they were 10% and we hope to continue to deliver this 10% to 15% growth next year also, so that it will come back to the last year's net profit levels. With this, I thank everyone and thanks CDR and Gavin for making this possible. Thank you.

Moderator: Thank you Sir. Ladies and Gentleman, with that we conclude this conference call. Thank you for joining us, you may now disconnect your lines.