



SUVEN Pharmaceuticals Q1 FY21 Earning Conference Call Transcript August 18, 2020

Rishab Barar: Good day, everyone and thank you for joining us on this call to discuss the Q1 FY21 earnings for SUVEN Pharmaceuticals. We have with us Mr. Venkat Jasti – the Chairman & Managing Director; Mr. Venkatraman Sunder – Vice President, Corporate Affairs; Mr. Subba Rao – the CFO, SUVEN Pharmaceuticals.

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

Venkat Jasti: Thank you, Rishab. Thanks one and all for joining into the conference call post the results announcement yesterday of Q1FY2021. I think as you could see from the results, we have a growth in the standalone both on the topline and the bottomline, but when you see the consolidation, it is a flattish kind of a thing and even though there is a growth on the topline, the bottomline is what you call the percentage of profits, not what the people are expecting it to be. And as I was telling in this forum and other forums, you cannot go by a standard operating procedure like regular APIs or something where you can have the same growth pattern, percentage of profits wise.

Depending on the product mix, it keeps changing, so I will not be able to give you any kind of a guidance on that except saying that we are confident of achieving that not less than 40% of the EBITDA. That is the only thing I can say. Other than that, everything is a variable depending on the product mix, but there we expect things to go in a positive way by the end of the year. When we had this conference call last time, this COVID was not that rapid but now it is affecting everyone, especially we are getting some 10 to 15% of the people getting affected, which they will be out of the circulation for 3 to 4 weeks. Luckily, nobody has serious effects of COVID-19. And as I was telling last time, because of this COVID, the sourcing of the new projects were very weak and we hope that this will change post the summer holidays there and sometime in September-October timeframe, we hope that the new projects will come in. So I can answer the questions relating to the performance.

This time we have given corporate action bonus issue. There will always be a question, why now, why not later, why not yesterday, this being asked by everybody all the time, but we have to wait for the opportune time. The opportune time is now, there is no life sciences brought here, now demerger has taken place. They have taken a new stand and we have enough reserve to be warrant that to be given without affecting any progress in the future because this is one way to allocating the capital, which you should appreciate. And other than that, our guidance is, there is no



guidance per se because we have only 6 months visibility, but even at this COVID situation, not getting the new projects, but with the existing projects we could manage to do, not on new volume, but also good profit margins and we expect the same thing to continue in the second quarter also. And third quarter onwards, we know only partially and both quarter we have a little idea, but in the beginning, we thought we will make good progress and I think as of now with the way things are going, even if this prime times under the COVID, we may be able to achieve 20% growth in the bottomline and 10 to 15% growth in the topline. And with this I will stop here and look forward to further interaction.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Anand Bhavnani from Bland Fund. Please go ahead.

Anand Bhavnani: I have three questions. One is, you have given a breakup of revenues into CDMO Pharma, CDMO Spec Chem and then Formulations, can you give this breakup for corresponding quarter last year?

Venkat Jasti: Yes, you want it for the corresponding quarter previous year, right?

Anand Bhavnani: Yes, both sequentially you can give, that is Q4 FY20 as well as Q1 FY20? I will ask my second question in the meanwhile...

Venkat Jasti: Yes, go ahead.

Anand Bhavnani: Sir, since you breakup as Pharma, Spec Chem and Formulation, is it safe to assume that Spec Chem is largely agrochemical in nature because that is typically how most of the players in our industry kind of focus on?

Venkat Jasti: Yes, it is 90% that way, agrichem.

Anand Bhavnani: And another question is, you had mentioned about improving our management bandwidth in previous concalls, so just wanted to know if there is any update and are you carrying forward that plan of improving management bandwidth as we scale up Suven Pharma?

Venkat Jasti: Yes, we are in the lookout, but the COVID has changed the perspective and it is getting delayed and our concentration is more on the operational thing at this time, so its got a little bit delayed on that, but we are obvious on the lookout and it will be done sooner or later.

Anand Bhavnani: And lastly, we have seen that in the Indian CDMO space, a lot of players have been able to get multiyear contracts where they jointly work with an innovator on a dedicated facility, so are we exploring any of those kind of business models where we have dedicated facilities or some innovator?

Venkat Jasti: There is different connotation for the CDMO business. If you are doing a developmental business, there is no question of anybody getting any lockdown contracts. Only when it becomes a commercial angle, then it becomes a long-term contract. More or less, it is like an API or like a Spec Chem when it becomes commercial, you have that intermediate or whatever it may be. Our Spec Chem is a dedicated unit only for that two products and that is going on. So as far as the developmental concern in the pharmaceutical thing, you will not have long-term contracts, it is all based on the success of the molecule the next order comes in. Only when it goes into, what you call the commercial, it is not a contract, it is an

unwritten contract. There is no contract written in the beginning of the relationship when we start particular project because after Phase-2 when we supply some molecule, we are one of the two or three sources that they will have. As they will continue all these three sources until the end of the patent. The only way you lose out your business is, even though there is no contract, if you are not able to meet their quality requirements, you were not able to admit their timeliness and if you are not able to meet the regulatory compliances and you are not able to meet the costing or something like that. Otherwise, it is a long-term contract, not a written contract, but it is a long-term agreement we have and we can call it quality agreements based on those developmental projects from the beginning itself.

Anand Bhavnani: Sir, my question, if I were to give an example, it was more of like one Syngene model. Syngene has a dedicated center for BMS, Amgen, so that has discovery and analytics kind of services, so I was just wondering if we are thinking of doing anything of that product, is there any option for us?

Venkat Jasti: Not at this time.

Anand Bhavnani: Just curious if data for the first question is available? The breakup of?

Venkatraman Sunder: Rs. 92 crore the pharma, CDMO; Specialty Chemicals Rs. 100 crore; and the other services, Formulation and other services, those time we had about contracting other services, it was about Rs. 6.69, Rs. 7 crore, you can take it as. Total is about Rs. 199.

Anand Bhavnani: This is for Q1 FY20, right?

Venkatraman Sunder: Correct.

Anand Bhavnani: And what would be for Q4 FY20?

Venkatraman Sunder: Q4 FY20 was Rs. 91 crore, Rs. 81 crore and Rs. 19 crore.

Moderator: Thank you. The next question is from the line of Ankush Agrawal from Stallion Asset Management. Please go ahead.

Ankush Agrawal: My first question would be towards the ANDA pipeline if you can give some color on the total filings and how many are commercial as of yet? And secondly sir, we have been speaking about moving from intermediates to API and formulation, so just wanted to know what kind of value addition are we looking at when we move from intermediates to an API and then from API to formulation, if you can give some color on that? Thank you.

Venkat Jasti: Yes, the ANDAs total filed 9 ANDAs and 2 ANADAs, that you say Animal New Drug Applications. And out of that, one is very old which is going on for the last 5 years and this year we have started two supplies and one more will go before the end of the year and there will be 5 more under development which we would like to file within 12 to 18 months.

Ankush Agrawal: So total be a commercial as of yet, right?

Venkat Jasti: Yes. As you know ours is not a blockbuster category we choose. We choose is a very niche small volume things, less competition with existing. The second question is, the value addition. See what we are saying is, in the CDMO place, when we are

doing the developmental aspects, where N-1 or N-2, people are now looking into expanding that operation to be served and if I am doing N-2, then if I have gone to the next N-1 and if I am doing n minus 1, there is a possibility that API itself can be outsourced. They have that willingness to do that and in that process, we will be moving into that one. That means it is a value addition naturally, we were doing instead of a 3-4 step process, we are doing in a 10-15 step process, so this is a value addition as the profit will be there, but that will be a long drawn process with the developmental compound. These are not the generics which we are talking about. The ANDAs I am going to develop this are the things which are already expiring, about to expire. Those are the things, nothing to do with the ANDAs.

Ankush Agrawal: Yes, my question was little directed towards the fact that like what kind of value addition, for example, say 20%, 30%, are you looking at when we move from a say intermediate to an API, if you can give some color on that?

Venkat Jasti: Yes, we have not gone that far, about 30 to 40% value addition will be there in the sense of the values that goes up and naturally based on the value addition on the topline, the bottomline will be also accretive.

Moderator: Thank you. The next question is from the line of Abdul Puranwala from Anand Rathi. Please go ahead.

Abdul Puranwala: My first question is in relation to the topline numbers of 1Q FY20, so the pharma division had close to 39% growth in this quarter and based on your commentary, it looks like it would be largely from the commercial molecule, so would that be right to assume that had the commercial molecules have been, the growth would have been quite superior as compared to what we have done previously?

Venkat Jasti: That is your guess, but what I was saying I am not giving significantly differentiation between the commercial and what we are talking about all these things, overall growth potential and this keep changing on quarter-on-quarter basis. I think if you go drill into these things and then come back and ask, why it is not happening and that is not happening, so we are just restricting ourselves in the CRAMS, it is a multitudes, it is the combination of Phase-2, phase 3 and the commercial altogether and it will keep changing from quarter on quarter.

Abdul Puranwala: And second question is in relation to the guidance of 15% on the topline, so this would be on the standalone entity if I am not wrong, right?

Venkat Jasti: Yes, I think I want to bring one clarity here. These are all dependent upon this consolidation of the things which is our only one subsidiary's investment into Rising Pharma which is ours as an investment. I am not getting any money into this place and till the results come, it is only the portion of that 25% we are posting it here that also keeps changing. That is not accreting anywhere until we can see the dividend payout. So whatever I talk is always the standalone because the algo thing required we are reporting it and I think people read too much into it as if we are getting that into our equity. I think that stand has to be changed on that part. That is what my submission.

Abdul Puranwala: And just last one more question. Sir, what would be the status of the new Vizag facility and when would we able to commercialize that plant?

Venkat Jasti: This COVID has delayed the civil part of it and I think we are supposed to have it by the end of the year calendar. Now, it will be before the end of the fiscal that is March, then it will be commercialized.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Sir, till last quarter we had 4 molecules which had been commercialized on the pharma part, so has there been any more molecules which have moved to the commercial state as of now and how many molecules do we have under phase 3 currently?

Venkat Jasti: I think this is third time I am telling, 3 conference calls. So we have dispensed the way with telling the number of molecules in various cases where anything has moved into the other one or not. This is a mix of the pharma clients which we are reporting and that will be the only thing we can talk about this right now.

Ankit Gupta: Sir, do you expect any more molecules moving into commercial stage over the next year or two if you can just highlight that and your views on that?

Venkat Jasti: We are always looking for the molecules. They move from stage to stage. And as we have said, we do not have any idea until the actual things happens in the clinical trial.

Ankit Gupta: And sir, just on the CDMO pharma side, because of the shift which is happening from China to India, do you expect any commercialized CRAMS molecule moving from one of the innovator supplier to us? Do you think that is also a possibility for Indian CRAMS companies like us?

Venkat Jasti: If you have NCE-based activities are unlikely. Here these are the generic based, may be likely, but I have no knowledge of that.

Ankit Gupta: It normally doesn't happen for CRAMS company? Is it like that?

Venkat Jasti: Yes, everybody says CRAMS in different meaning, whether you are doing with the generic based CRAMS or it is NCE-based CRAMS or it is a contract research. Anything can be called contract research, right, so it depends on what kind of molecules you are doing. As I said for NCE-based molecules, the likelihood of changing is very remote.

Ankit Gupta: And sir, on the generic ANDA side, any new approvals that we have got in past 3-4 months and how many approvals do we expect in FY21 and FY22?

Venkat Jasti: As I mentioned few minutes ago, one is an old ones continuing one, two we have just supplied and one more is likely to be supplied before the end of the year and 5 are under development for filing.

Ankit Gupta: And out of that, how many do we expect to commercialize in FY22?

Venkat Jasti: We expect 3 to 4, but only thing is, nowadays with this slowness and filings are happened late also and until the FDA approvals also getting late, so we cannot guarantee anything at this time but we are only trying to file how many of them will mature we don't know yet, unlike before, we cannot really predict.

Moderator: Thank you. The next question is from the line of Rohan Adwan from Multi Act. Please go ahead.

Rohan Adwan: Sir, my question is on the ANDAs again. Just wanted to understand that you had said you started commercial supplies of two ANDAs in this quarter and you have a profit share model, so does it work this way that you supply the ANDAs on a cost plus basis to the customer and the profit share is later on shared when that customer actually offloads that stock in the market and so the profit share might yet to be accrued for these ANDA supply, is that how it is?

Venkat Jasti: Yes.

Rohan Adwan: So while this quarter has had the cost plus part of that ANDAs, the profit share is yet to slow into our P&L for the ANDAs, right?

Venkat Jasti: That is right.

Rohan Adwan: And sir, my second question again is on the contract technical services which is Rs. 13 crore this quarter which would have some part of ANDAs also, while there is a Y-o-Y increase, sequentially it was Rs. 19 crore which has come down to Rs. 13 crore, so why is there so much lumpiness in that business on a quarterly basis?

Venkat Jasti: As I said, it is mainly the services. Services take 4 to 6 months for billing and not every quarter we can bill it, so it can be accumulated and certainly it goes into one quarter for the whole 6 months and 9 months work. So it keeps changing, but at the end of the year, it will come to be average count.

Rohan Adwan: And sir, lastly on Rising and I totally understand you don't have exact color on profitability until they publish the results, but qualitatively if you could just throw some light on how this investment has shaped up, you turned profitable very soon after the investment, is there any COVID specific impact like I believe they were the large distributors of HCQ and has that helped? Is there any one-off, this is more sustainable qualitatively?

Venkat Jasti: They are now also cyclical in nature and it is uncertainly, a new ANDA is launched by the Rising, with the partner thing, that quarter the valuation on the topline and bottomline may be better but quarter-on-quarter we can't tell and I cannot tell how the HCQ has gone and all that stuff at this time.

Rohan Adwan: And sir, on this profit share, now it will start accruing from this quarter onwards, is it?

Venkat Jasti: Yes, as I said, these are very small volume and niche molecules. Yes, it will start accruing.

Moderator: Thank you. The next question is from the line of Cyndrella Carvalho from Centrum Broking. Please go ahead.

Cyndrella Carvalho: Sir, just want to understand from you, how should we look at the opportunity wise, how are we placed in terms of the NCE CRAMS segment, what is your thoughts on that and what is the current trend, have we seen any further opportunities coming our way? And if yes, then what is our preparation level for that in terms of technology and abilities and further?

Venkat Jasti: Cyndrella, you very well know the trends that are happening especially before COVID looks everything rosy. I also told in February timeframe that people are expanding their things like if we are supplying N-2, then they are going to the next level and then to API itself. Similarly, on the backward integration also, if we can ask

for something in the early stage also, they are willing to come because the relationships, the people like Suven has got in the customers. That time was there, but as I was also telling you since the COVID, the new projects are not coming that much and it is very anaemic at this time because not many people are concentrating the new project developments, they are only managing new projects. In fact, this may happen post summer holidays after they come back in September timeframe. I think they start looking into that activity and it will certainly come back. It will be a gap of this last 6 months which will eventually be built up, so that is the way the trend is going now.

Cyndrella Carvalho: That is very helpful, sir and very confirming. And sir, if I have to say that in this particular quarter, Q1, are we seeing some more additional contribution from the early phases this quarter, just looking at the gross margin and trying to relate it, so if you could help me understand?

Venkat Jasti: The changes in the gross margin are because of the product mix. So if you have a value-added product that quarterly will have high gross margins and most of the projects or their number of projects which we have done is generally volume is there, but the gross margins will be less especially if you have the early stage projects, so that is panning out.

Moderator: Thank you. The next question is from the line of Mithun Aswath from Keva Advisors. Please go ahead.

Mithun Aswath: Just wanted to understand what is the current cash on the balance sheet and has all the payments to Suven Life Sciences been made so far or anything still pending?

Venkatraman Sunder: The money payable to Suven Life Sciences will happen over a period of 2 to 3 years in the sense actually, we have marked for Rs. 42 crore to be payable this year. The balance was Rs. 91 crore (as on March 31, 2020) which was payable in the long term. That is what we said earlier. Of which, right now, we have a total cash balance payable to Suven Life Sciences about Rs. 115 crore. That is in relation to the liability for payable and in accounts to the cash position, we have Rs. 40 crore cash at this point of time.

Mithun Aswath: During the demerger process, why hasn't the cash which was due to Suven been made at one go because I think there was cash in the balance sheet at that point, right?

Venkat Jasti: The Suven Life Sciences doesn't require the cash and Suven would like to use that for the ongoing CAPEX building without taking a loan from that and which we are paying market based loans only, it is one at the same, either I borrow it from the CAPEX on the outside or take it from the existing one and pay as we go by on a reducing balances.

Mithun Aswath: And for Suven Life Sciences, what would the annual requirements be for the R&D?

Venkat Jasti: That will keep changing depending on the nature, where the projects are and whether it is on Phase-2 or ones are starting, something like that, but this money will be there for 12 to 18 months we will make the payment to Suven Life Sciences.

Moderator: Thank you. The next question is from the line of Saravanan from Unifi Capital. Please go ahead.

Saravanan: Just reconfirming the Specialty Chemical segment, you had mentioned that this year two more would be commercialized, is that on in time?

Venkat Jasti: No, I didn't say that. I said two are under development, one more will be commercialized in 2021 timeframe.

Saravanan: As regards to the formulation, two ANDAs have been commercialized in Q1 and within the end of the year, again you would add another 3 more, is that the plan?

Venkat Jasti: Another one more that makes it three.

Saravanan: The total three for this year?

Venkat Jasti: Yes.

Saravanan: And any comment on the CAPEX guidance?

Venkatraman Sunder: Now, we spent about Rs. 30 crore towards CAPEX in this quarter out of the Rs. 120 crore which we are supposed to spend based on the earlier allocation of Rs. 320 crore which we already spent about Rs. 196 crore spend up to the end of last quarter. So balance Rs. 90 crore to be spent.

Venkat Jasti: Originally, this amount is supposed to be spent before the end of the calendar year. Now because of COVID some delays are happening and this will be spent before the end of the fiscal.

Venkatraman Sunder: FY21, it will be closed.

Moderator: Thank you. The next question is from the line of Ranvir Singh from Sunidhi Securities. Please go ahead.

Ranvir Singh: Sir, one thing, just I was hearing your comment that in CRAMS space, we are servicing existing clients, but for last few weeks, I have been seeing in news that now the clinical trials activity just picked up and in last 3-4 months, most of the recruitments were almost at halt. Now, they have started seeing signs of more recruitments are happening. So in this scenario, are we not looking at increased activities in our CRAMS space and CRAMS business?

Venkat Jasti: We are always looking for the increased activity, but what you are saying is, now that clinical trial has resumed that based on the existing molecules only that the new developmental market is coming up, at very early stage molecules are not yet started prioritizing. Either existing molecule which stopped due to the COVID, their recruitment started, those projects which we have already got in the early stage are still they are with us. And the new ones as I was telling, it is very anaemic at this time because there is no new early stage molecules been sourced lately, which I think will start coming post September.

Ranvir Singh: And secondly, on Vizag facility, what is the OpEx currently we are doing?

Venkatraman Sunder: Vizag, the CAPEX is Rs. 100 crore.

Ranvir Singh: No, OpEx I am asking we are spending for maintaining.

Venkatraman Sunder: We are not providing the unit wise split. Segment wise, we are not trying to provide.

Ranvir Singh: So, by end of when the facility would be commercial, obviously CAPEX would go up, so what would be the CAPEX because next one year, you have to whatever is spending you are doing that have to be added with the CAPEX you have already done, so what would be amount then by the time this facility gets commercial?

Venkatraman Sunder: By end of the year, we will be transferring balance (from Capital Work in Progress). We have earmarked about Rs. 320 crore for 3 different types of CAPEX which includes OEL4 facility in Pashamylaram and the Vizag facility and the formulation facility of which we already spent close to about Rs. 220 crore. The balance will be spent about close to Rs. 100 crore this year of FY21.

Ranvir Singh: And just a quick one on other expenses, if you see in this quarter, absolute amount is also sequentially lower, so where we have saved money?

Venkatraman Sunder: No, this is like, it keeps changing.

Moderator: Thank you. The next question is from the line of Gokul Maheshwari from Awriga Capital. Please go ahead.

Gokul Maheshwari: Are you facing any supply disruption with respect to your meeting customer requirements, production requirements?

Venkat Jasti: There are logistics problems especially couple of months. In the beginning of April and May we have problem, but now they are streamlining and there are occasional supply disruptions are also taking place, not only because of the COVID, but also due to some other reasons like pollution and all the stuff and china stuff. These are ongoing not only today, but COVID has a little bit aggravated that, but it is now coming back to the normal thing.

Gokul Maheshwari: And with respect to the ANDAs which is being launched, you have mentioned in the past that you are looking at the sizes around \$2 to \$4 million, is this still in the ballpark with similar range based on the initial feedback which was received?

Venkat Jasti: Yes, it will be more or less that only, it cannot be more than that. We are not choosing anything which is a bigger size as of now, but as the time goes by, we will see what kind of a value addition also we can bring into the ANDAs by doing the different routes and all of stuff which we are developing. And first, we want to get into the steps and get to the activity, so we chose those things which were small volumes and easily manufacture and developable. The complex things, we are in the process of developing which takes couple of years before we can talk about it.

Gokul Maheshwari: Lastly, on Rising Pharma, I understand your constraint in terms of just being an investor but in the past you mentioned that roughly it is around Rs. 12 to Rs. 15 crore of contribution on profits for the quarter and I don't want to go into the quarter, but on an annual basis, we are looking more as a Rs. 50 crore kind of a contribution from them?

Venkat Jasti: That is what the guidance given by my partners on when we said what are the numbers that they have done and we have taken that into kind of a thing, but there is always a possibility to 10% down or 10% up from this businesses kind of things and this is no hard and fast rule on that one. But as you could see, that is already is going, this quarter is only Rs. 10 crore. Now quarter-on-quarter also, there will be difference. It can be Rs. 20 crore some other quarter, may be Rs. 15 crore or Rs. 10 crore or Rs. 8 crore, it will be changing, but it will be in that range, it is 10% this way or that way.

Moderator: Thank you. The next question is from the line of Hiten Bharucha from Sequent Investment. Please go ahead.

Hiten Bharucha: Sir, just one clarification, you mentioned that our guidance is 10% growth in topline and 15% in bottomline, am I correct?

Venkat Jasti: Yes, I said 20% on the bottomline actually, 10 to 15% on the topline.

Hiten Bharucha: 20% in bottomline, right?

Venkat Jasti: That is right.

Hiten Bharucha: And this would be for FY21?

Venkat Jasti: Yes.

Moderator: Thank you. The next question is from the line of Rahul Picha from Multi-Act. Please go ahead.

Rahul Picha: Sir, it seems in Spec Chem, we have two launches in the pipeline, and of these you said, one we will be able to launch in FY21 itself, is that correct?

Venkat Jasti: Yes.

Rahul Picha: And the second one will come next year?

Venkat Jasti: Possible.

Rahul Picha: And sir, on this new project absolutely being anaemic, so on that suppose if we are not able to have discussion with customers right now and new projects are not flowing that would impact our business for maybe next year or year after that or it does impact our business this year as well?

Venkat Jasti: Because early stage there is a gestation involved so that revenue wise it may not impact, but it may impact may be fourth quarter or next year, something like that, a little bit because early stage the volumes and values and bottomlines are very less, but without having the early stage project, we will not have the later stage project anyway. That is what we are trying to say since there will be a 6 months gap of acquiring the projects.

Rahul Picha: And sir, once the discussions are regularised, it is also possible that you could gain more business in a less period of time from whatever was not discussed during this period when the last 6 to 8 months the problems were there?

Venkat Jasti: I cannot assume that it all depends on the customer, right. So if they are taking too many things on plate it will be more than happy to take it, but it is all depending on them.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir, I could not understand the economics for the ANDA molecules where you said that you have booked cost for this quarter, but not the profit share, so if you can help

us understand like how much of revenues are these ANDA molecules going to generate? What can be the share for us and how does the booking happen in terms of the cost and profits in the coming quarters?

- Venkat Jasti:** When we sell the product it is on a cost plus basis, that means we are actually just getting your cost back, when the profit share means after they sell and after they net out all the expenses, then depending on the profit whether you are getting 20%, 25%, 30%, 40%, whatever it is that share of net profits will be provided to you. Usually, there will be a gap of 3 to 6 months because it has to go away and they have to load the pharmacies and they have to sell and they have to get the revenues back and then they get net it out and all those stuff. It takes time, so when that profit share comes in, it will come and join here. Until that time, it is only the cost of goods sold as represented in the formulations.
- Sarvesh Gupta:** And what can be the margins in such a business?
- Venkat Jasti:** Since they are net profit margins, anyway from 20 to 50% depending on the molecule.
- Sarvesh Gupta:** And how much cost have we booked in this quarter for this?
- Venkat Jasti:** There is nothing like cost as various things are here and formulations will be Rs. 4 crore only.
- Moderator:** Thank you. The next question is from the line of Srihari from PKS Securities. Please go ahead.
- Srihari:** So you have four commercial molecules on the pharma side and one still under patent in the specialty chemical side, can you please give us an idea about the current market size and how do you see these molecules panning out?
- Venkat Jasti:** See, the market size has no relevance because unlike before 10-15 years ago, there is some estimation of how much you can be. Nowadays, the cost of goods are very miniscule in the new chemical entities. And moreover, we are getting only these raw materials, one of the raw materials that is intermediate. It is not defining a product itself, so it is highly possible for many correlates between the market value and the amount of business we can do. What we are reporting is only the growth that is happening on a quarter-on-quarter basis and mainly year-on-year basis.
- Srihari:** Could you please at least tell us on how the molecules are faring on in terms of growth?
- Venkat Jasti:** They are okay, because we are getting repeat business and out of the four molecules, the two were doing well and two were doing okay.
- Moderator:** Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.
- Charulata Gaidhani:** My question pertains to, can you give an idea in terms of the number of projects that you are working on currently in CRAMS?
- Venkat Jasti:** We have disbursed away with giving the number of various molecules at various stages and we are only giving general pharma brands business growth because it doesn't have any relevance as a molecule which is in phase 1, if supply there is no

guarantee that it will come back. Even if it comes, how later it will come. So reducing the information on that basis is very difficult, so that is why we are after the demerger we thought it is the right way to go about it talking about the overall growth because we can't guarantee anything on the fact because it is all success of the molecule.

Charulata Gaidhani: Or if you could give an idea on the number of molecules and number of customers?

Venkat Jasti: We do about 60 to 70 active projects per year and it will be around 40 customers roughly.

Charulata Gaidhani: 60 to 70 active projects, okay, so over the next 2 to 3 quarters do you expect to maintain similar revenue growth?

Venkat Jasti: I gave a revenue growth of 10 to 15% that can be not on a quarter-on-quarter basis, that is year-on-year basis because it is highly fluctuating because they are all as I said, it is such space and stage is when it starts to accrues to us we cannot give you quarter-on-quarter, but we can only give you just estimate based on the past performance and the existing information that is available because our visibility is only 6 months from now. We are talking about 10 to 15% growth, overall.

Charulata Gaidhani: And my question pertains to the Government of India cares and scheme for the PLI scheme for key starting materials to reduce dependence on China, are you contributing anything to this or do you have any plans for getting into?

Venkat Jasti: Yes or no, because the Government of India, they talk heavily, but when they come to the activity, they don't do much and this started not today, it was done 4 years ago. Even now, they are talking that, they should encourage people who has the capability to do it, rather they are saying you go to Greenfield, you spend 2 to 3 years before you can come back to commercialization and all the stuff, so not many people are going to show interest. As I am doing, I myself, some of the molecules where the dependency is there, we are trying to do backward integration ourselves. Since we are not into the APIs, we are doing only those NCE based intermediates for which some raw materials are required, we are doing some backward integration to reduce the dependence, but not much like an API, so this is a long drawn process.

Charulata Gaidhani: And how much Suven Pharma is dependent on China?

Venkat Jasti: Everybody is dependent and our total raw material cost from China is less than 8% or so.

Moderator: Thank you. The next question is from the line of Varun Arora from SAFe Enterprise. Please go ahead.

Varun Arora: My question is related to last participant's question, regarding focusing on N-2 products and they are endeavoring to get into N-1 and n molecules, is that the correct understanding?

Venkat Jasti: We are always interested into going to the total API all the way and NCE based API all the way, but the thing is until now, the customers who are giving us the intermediates development, they are really giving N-1 and N-2, now they are willing to go to the next step of qualifying us by the next level also. That mind-set change has happened which we are trying to take advantages because of our relationship, because of our regulatory compliance and because of our capabilities and the creation of the capacities and all and it will be over a period of time, it will not be

within next 3 to 6 months, it will take couple of years before we can see an activity fructifying into that. This is a trend that is happening, that is what I am articulating.

Varun Arora: So sir, we are in the pilot stage right now and we don't have any project in hand for the API?

Venkat Jasti: No.

Varun Arora: And regarding the guidance that you have given, I know you mentioned that it is always difficult to predict when the medical go into commercial space, but the guidance that you are giving back based on the existing orders that you already have and that is not taking into any major success which may come, but you are not taking it in your guidance?

Venkat Jasti: No, you cannot take any success. It is based on the existing things and the normal inflow of the projects. That is what it is.

Varun Arora: So we are taking in some sort of contribution from the incremental orders which may pick up from September onwards?

Venkat Jasti: Yes, but that will not give you that much value. That is a long term value proposition, but not immediately acquiring to you that will give you small tens and thousands of dollars, not much and the bottomline at that time will be less because in every stage, your small values and also you do lot of R&D before you get to a manufacturing stage. As the project moves into the later stages only, then you will get more bottomline accretion.

Moderator: Thank you. Next question is from the line of Harsha from KA Securities. Please go ahead.

Harsha: Can I know the revenue contribution from the commercial products, what is the revenue from the commercial products?

Venkat Jasti: We are not giving you traction, we are only giving the total number of molecules that being on the pharmaceutical tracks.

Harsha: Sir, what may be the stable income, stable revenue, can we imagine the same thing in the next quarter also the revenue, if there are no incremental orders?

Venkat Jasti: Yes, I said 10 to 15% growth is there, I said it is not quarter-on-quarter, please bear in mind. I cannot give anything on quarter-on-quarter, it is on year-on-year basis only because this keeps changing and it is not a product we excel so I can give you some kind of an estimate. These were all the success-based molecules and based on the existing orders and the customer's inputs, we are giving you guidance, but it is not real guidance. Sometimes, it may boomerang and go down by 5% also at the end of the year, but right now, we are saying 10 to 15% growth for the total year.

Moderator: Thank you. The next question is from the line of Amar Mourya from AlfAccurate Advisors. Please go ahead.

Amar Mourya: Sir, first thing is that like last quarter we mentioned something around 15 to 20% kind of a growth guidance, right, so are we trimming our guidance by 5% point?

Venkat Jasti: 15%, 20% and bottomline. I am talking now topline. The bottomline is 20% still.

Amar Mourya: So this is topline guidance of 10 to 15%?

Venkat Jasti: Right.

Amar Mourya: And sir, in this quarter, is it like some orders were like more forward-ended rather than the back-ended, that is why you had seen 20% kind of a growth, but ultimately on a full-year basis, it will be like 10-15% kind of a growth? Is it like project got pushed forward or something like that?

Venkat Jasti: As I was telling all the time, you cannot go by quarter-on-quarter, sometimes, we get one order of Rs. 3 million it will go on to next one, the next one is high and this quarter goes slow. So we don't go by that, we just go by the year-on-year basis. So there will be gaps.

Amar Mourya: And sir, like we were looking for one more commercial product, so that is also likely to commission like or it has already?

Venkat Jasti: We are not looking for any commercial products. We have to move it on the success of the molecule and the clinical trials. As I said, we are not giving a new dissection of where, which molecule and when it is going to go into it because when it goes into commercial, then again, whether it is coming into the repeat business in this 3 months from now or 6 months from now, it is very difficult. Hence, we are dispensed away in giving the guidance on that basis other than the total guidance.

Moderator: Thank you. The next question is from the line of Purvi Shah from Kotak Securities. Please go ahead.

Purvi Shah: Sir, my question is regarding the gross debt number, if you could give us the exact number at the end of 30th June?

Venkatraman Sunder: Gross debt is only the money payable to Suven Life Sciences which is about Rs. 115 crore that is payable.

Venkat Jasti: If you say net debt, it is Rs. 75 crore.

Purvi Shah: Sir, if I have heard you correct, Rs. 42 crore is to be paid in FY21 or is it already paid?

Venkat Jasti: It is not paid.

Purvi Shah: Sir if Rs. 115 crore includes the Rs. 42 crore that is yet to be paid?

Venkatraman Sunder: Let me explain this. We had at the beginning of the year, total money payable to Suven Life Sciences Rs. 133 crore. Right now, we have Rs. 115 crore payable to Suven Life Sciences. We should earmark to Rs. 42 crore for payable during the year based on the requirement from Suven Life Sciences. If it goes up, we will pay off the balance. If it comes down, whatever it is, that will be remaining as a debt in our book until we pay them.

Moderator: Thank you. Next question is from the line of Suhas Naik, Individual Investor. Please go ahead.

Suhas Naik: I have two questions. First one is regarding our CRAMS model where we are in intermediate stage right now, how scalable is this model? What size it could assume,

say over the next 3-4 years, if you can throw some light on that? And second question is about as Suven Life is dependent on us for the cash flow support, do you have any plans to raise equity in Suven Life either at the molecule space or at the company level?

Venkat Jasti: Suven Life is not dependent on Suven Pharma. Suven Life is an independent company and Suven Life has lent money to Suven Pharma (which was part of demerger process) which we are going to pay it whenever they need it. As far as the fund raising is, yes, it will be done in Suven Life when is the appropriate time, so that is a different forum to talk about it. With respect to the scalability, yes it is scalable, we have no problem in scaling us, we have done earlier, it is only the success of the molecule that gives us the business. So it is a matter of 6 months before we can put additional requirements of the balancing equipment as needed for the success of the molecule that comes in and we have more than enough time given to us by the innovators because we have enough time for that to be built and expand our business. So scalability is not a problem and 4-5 years from now, if the more molecules in the pipeline goes into the commercial angle, it can double also, but we cannot tell that because we have the visibility of only 6 months and the success of the molecules neither do my customer knows nor I know because it is all the success at the clinical trial.

Moderator: Thank you. The next question is from the line of Mayur Dhamani, Individual Investor. Please go ahead.

Mayur Dhamani: First of all, I want to congratulate Mr. Jasti and team for continuing the growth momentum, may be people take it differently, but I have been with Suven from 2010 June and I have seen the price of Rs. 30 and now it is somewhere about Rs. 650 and Rs. 700 odd, so 20x in 10 years is a very good wealth generated. So I just want to now tell after the recent demerger, means in March 2020, this is a confusion among the minds of my friends, relatives, everybody meant as to what falls under Suven Life and what falls under Suven Pharma, though it is very clearly mentioned in the investor presentation and others, so I have recently seen the new website of suvenpharm.com as well and it is clearly mentioned there and I just suggest to Mr. Jasti and team to expedite this process and in few of the areas, I can see that few sections are coming soon, coming soon, means the website is not up yet full. So suven.com will continue as suvenlifesciences.com and suvenpharm.com is for Suven Pharma, I just want this clarification?

Venkat Jasti: Yes, suvenpharm.com is the Suven Pharma and suven.com is Suven Life Sciences and you got a good question about what stays in Suven Life and what stays in Pharma. And we have been mentioning exactly, Suven Life Sciences is a when we are going to spend money right now and there is no guarantee, there is a success at the end of the tunnel until it becomes a success at the clinical trial. So there, money-burning affair as of today at the Suven Life which eventually will give you the success based on the success of the molecules and the clinical trials whereas Suven Pharma which is revenue generating business model. Whatever the R&D we do, we still do that is goes into pricing of the molecule, so we don't have separate R&D expense which we put somewhere, only as we mentioned in the balance sheet. There is no guarantee in these things we will go at the commercial angle and that will be giving you the revenue. This is a revenue model. The other one is, there is no guarantee, the R&D which you spend is sunken money and only success of the clinical trial will give you the money. Here, the success of the R&D is automatically we supply the molecule at least for that stage and if that stage passes, again we supply to molecule, I mean the product, like that it happens. So Suven Pharma is a pure revenue generation model. All the revenue burning model is kept in the innovation kept in the Suven Life Sciences.

Moderator: Thank you. The next question is from the line of Joe Samuel from Geojit Finance. Please go ahead.

Joe Samuel: I just had a question on the EBITDA margins, which had gone down a bit during this quarter. So just briefly, what would you attribute that fall in margin?

Venkat Jasti: Product mix, you cannot reach if it's a regular product go in day in day out EBITDA margin, but when it is different product, 30 to 40 products in a quarter and they have been depending on the stage where they are in, how much R&D cost that comes under and all those things comes in the picture. But at the same time, you have to see on a year-on-year basis and our guidance of plus 40% EBITDA margin is what can vary quarter to quarter.

Moderator: Thank you. The next question is from the line of Darshit Shah from Nirvana Capital. Please go ahead.

Darshit Shah: Sir, if I may ask a question on Suven Life, I understand that we have got some very good reports on the SUVN-502 molecule on the neuropsychiatric symptoms. So, what is the stage ahead for that? Are we going to meet the FDA to recommence the clinical trials or some neuropsychiatric symptoms for that molecule. And sir, second on the G-3031, do we expect the trials to end on December as what we have communicated earlier or do we expect some delay in that?

Venkat Jasti: Yes, even though it is not the part of this thing, I can give you the update on that. G-3031, there was a delay of 3 to 4 months because of the COVID. We are only now as other part that has remuneration clinical trial has started now. Similarly, our 3031 also started. Instead of that, I think if it goes more or less up to March 31st we will be lucky because of this delay. With respect to the 502, yes, it has some, as I have mentioned in various con-calls that 502 even though it failed to meet the primary endpoint, but on the secondary endpoint especially the psychiatric disorders and the agitation, aggression which you were mentioning is used data. Based on that, we are in touch with the key opinion leaders from Europe and USA and we are finalizing a thought process and the protocol which will be submitted to the US FDA within the next couple of months first going further to do the clinical trial, two for concept based on data that is already existing. Yes, it is in the process and the time, it takes 4 to 6 months.

Moderator: Thank you. The next question is from the line of Paras Bothra from Ashika Stock Broking. Please go ahead.

Paras Bothra: This question pertains to Rising Pharma, can you briefly give us an update on what could be the contribution from Rising Pharma to Suven Pharma for the full year as such and what it was for this quarter?

Venkat Jasti: I cannot give you any guidance, I can give you only numbers which is given quarter-on-quarter basis because it is an investment for us and we were only showing as a consolidation, it is not accruing to us because it is not a dividend, so I am not running back, I cannot give you any guidance.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Blank Fund. Please go ahead.

Anand Bhavnani: Sir, two followup questions. One is with respect to Rising Pharma, I see that we have now shown profits for couple of quarters. As of today, has our experience with Rising been better than or as expected when we put in the money last year in March?



Venkat Jasti: The reason we put the money everybody doubted that it will survive and in the first year itself it made money and it keeps making money and there is no second thoughts on it and it is a long-drawn process and it is a long-drawn investment. It is an investment.

Anand Bhavnani: And this investment as of today, would you say, it is performing better than your expectation or as your expectation?

Venkat Jasti: As per the expectation.

Anand Bhavnani: And sir, with respect to the formulations, you mentioned Rs. 4 crore of revenue in Q1 which is purely the cost because profits will come later, so is it safe to assume that from?

Venkat Jasti: That also includes the royalty of the existing molecule.

Moderator: Thank you. The next question is from the line of Ankush Agrawal from Stallion Asset. Please go ahead.

Ankush Agrawal: Sir, just one clarification on the ANDA side. We were expecting Rising to contribute like from the Rising, we should get 2-3 ANDAs every year, so how is it progressing on that side?

Venkat Jasti: Yes, when they developed few things and when it fits into our scope of things, then they will come to us and we are already joining the co-development of 3 ANDAs with the customer.

Moderator: Thank you. The next question is from the line of Vivek from GS Investment. Please go ahead.

Vivek: The questions from my side is regarding the opportunity fund in the CDMO in Indian context and the scalability of our company and basically, if you can say something about it sir, that is my first question?

Venkat Jasti: Yes, scalability is not at all a problem. In the CDMO, there is a different connotation, we are doing it for the NCE-based things, it is all depending on the success of the molecules, then this scale of things comes into the picture, but if you are talking about the generic or specialty or something like that, that can be scaled up also. Scalability is not a problem and as I was mentioning, the innovator customers are trying to expand their offerings, not offering but outsource activities which will help the Indian industry.

Vivek: Second thing sir, I remember you came with an IPO in mid 90s and the CRAMS word for the first time was used by you and you went in for the Suven Life Sciences' Alzheimer and other diseases and so does that foray into new chemical entity, discovery which was very unique for small Indian company sitting in Hyderabad 20 years back. Does that act as a differentiator for us in getting new business, giving big comfort to our MNC customers depreciate it and any other differentiator which you would like to highlight for Suven?

Venkat Jasti: In 1995, when public and we have coined the phrase CRAMS at that time and is now the Contract Research and Manufacturing Services and the idea at that time is when 2005 comes in, when India becomes an IP protecting country, the same CRAMS, the connotation changes to collaborative research and manufacturing services

wherein you will be entering into the innovation. That is where we have gone into the innovation. And of course, the contract research part has continued and unfortunately, even though we did more than Rs. 800 odd crore, the only success happened over the years only in 8 molecules. So that is the nature of the business it is. All the years we have built up the report and supplies and commitments and quality and the innovation that we bring on to the table and recently and last 3-4 years, we began the preferred suppliers to the four big pharma. So yes, certainly, this capability of discovering and developing on your own gives you some edge, but that doesn't mean the molecules we have been outsourced to work on unless they go into the commercial angle there will not be any success as I was telling you more than 800 molecules, only 8 are into commercial. So yes, it has its things there, but it is not a guaranteed success. We have done that only.

Vivek: And how is the future looking like sir, if you can tell something?

Venkat Jasti: As of now, looking rosy but only time will tell.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments.

Venkat Jasti: Thank you once again and one and all who has tuned into this post results conference call and under these circumstances, we could manage to swim above the waters and this year, as of now, looks okay, barring any thing that can happen with the COVID situation either here and other countries. Things are moving very well and hope to talk to you sometime in November. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Suven Pharmaceuticals, that concludes this conference. Thank you all for joining.