Suven Pharmaceuticals Limited
Q2 and H1 FY21 Earnings Conference Call Transcript
October 31, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Suven Pharmaceuticals Q2 and H1 FY21 earnings conference call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing * and then 0 on your touchtone telephone. I now hand the conference over to Mr. Rishab Barar from CDR India. Thank you and over to you, sir.

Rishab Barar: Good day, everyone and thank you for joining us on this call to discuss the Q2 and H1 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 and good morning to everyone. Thanks for tuning in on this Saturday. I appreciate it. As you know, this quarter and the half year, as you could see is not up to the mark but what I was telling all the time that it is not quarter-on-quarter and it has to be year-on-year basis. The numbers are with you, I don't have to go over the numbers, how much is down and now let us start, but based on the visibility and we still wishing that whatever we have given the year's beginning growth projections for a minimum of not less than 15% to 20%, we are very confident based on the visibility we have, so there is nothing to worry about. There are some incremental costs that had happened, then of course the profitability is less, not only on the less volume, but also due to product mix. That is a phenomenon, one quarter it will be much better because value-added products are delivered and also this would increase in the manufacturing expenses, which contributes mainly the environmental angle. The costs have gone up from the zero liquid discharge and also from, who is taking care of this activity as the third party also increased prices and also some cost increases also due to this COVID related activity when we had to cut down the number of people, so that we have to put more people, but because of the less number of our day work and other people has to be replaced to continue these things, cost increases that also happened. Of course, there is some employees cost increase also. All these led to the reduction on the profitability. But at the end of the day, for FY21, it will be the topline and bottomline certainly will be above 15% to 20% growth. That is based on the visibility I have, I am telling you about that.

The second part I need to bring up is the CAPEX. People are questioning why suddenly so much CAPEX and all that stuff and how much additional capacity is going to be created and what is going to be the revenue that is going to be generated and all the stuff. I was always telling that our CAPEX and capacity of the liters and kiloliters does not give you the endpoint like other pharma companies. So in this new era, unless you improve your grade, you modernize with both the facilities and technologies, you will not be sustainable. Our tone is that if you want there is additional capacity creation is also happening. Before we have not done this aggressively as you know at the time until this March, we are combined company of Suven Life Sciences and Suven Pharma where the money that is generated has been used for the R&D purposes, now that thing is gone and we have no obligation and anything to do with the Life Sciences for funding, so we have taken up this exercise and we have taken our board's in-principal approval of Rs. 600 crore for various reasons like technology absorption and upgradation. And also as you know this is more than a 30-year-old company and facilities are very old, so we should start modernizing those facilities. That means modernizing the existing facility will not solve any problem, that means we want to replace block by block, so we are going to take up one of the things to replace the block that means it may not give you additional capacity, but at the same time, it will give you additional upgradation capabilities and better technology absorption, so we can use the new equipment, new automation kind of semi-automation and it is not full automation, all those things can be brought into this system and also it can become a FDA approvable facility also, eventually everything is converted. So this is one of the reasons and of course in the Pashamylaram, we would like to put an additional block, These are all based on the feelings from the customers and our guesstimate that things do move in the right direction. I cannot wait until the last minute, we need to start with activity, so that is another area where we are going to focus.

The third thing is as you know this R&D [facility at Jeedimetla], there are two reasons why we want to take up this activity [shifting]. There is a GO (Government Order) that any facility within outer-ring road, may have to move out, we don't know [when and] where, but we don't want to make until last minute and also as you know this April, we have some small misfortune in the R&D center where some of the labs are being shattered in the fire accident, so we thought we would like to modernize and also include new technology in R&D labs also like high potency and other things that can be coming yet. So we want to do this proactively and we have not earmarked any funds or any amounts to anything; this is just to get estimate of the number, so we have taken the permissions from the board which, now we will go onto the drawing board and start doing the work and that way it is going to go to the next level. So this is the reason why we have taken up this new exercise and only thing is don't compare us with other generic pharma companies where we keep on talking about the capacity till the percentage utilization or all those things which are not applicable to Suven, I think. You will appreciate that because we always aim plus 40% EBITDA and this cannot be sustained if we do not improve upon technology, facility and so on.

Even though first half profitability [subdued] are not there, [the next half of the year looks promising] as these are all customer driven projects and all in all, the things are looking much better than it is and now this second quarter, the new projects also started coming in because of the COVID relaxation little bit. Of course, now again in the Europe and America is going up, I do not know what it will be, but the visibility I have for the existing projects and all the stuff, the things are looking very good and we are very confident of achieving about our promise many more.

With this, I will stop at this time. I think I will take up questions, so that we will have much better clarity. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Saravanan from Unifi Capital. Please go ahead.

Saravanan: I have couple of questions, so in order to meet our yearly guidance, it looks like the second half, the margin profile has to be substantially high, so want your comments on that and you had also told us that the ANDA sales that gets booked in the initial quarter, the profit share typically comes in the later quarters, so just wanted to reconfirm the understanding? The second one, in terms of CAPEX, you had clearly explained that we cannot look at fixed asset's turnover ratio like we look for other pharma company, but out of this Rs. 600 crore, what is towards capacity creation, what is towards upgradation, if you can give a broad split that will be very useful?

Venkat Jasti: I think you are asking the same question which I have answered already as far as the CAPEX is concerned. I said we have taken in-principle approval, these are various things which we are going to do and also said these are not going to be purely capacity expansion, it is also the quality to upgradations and technology absorptions also included there. So I leave it there because we have not yet finalized our thought process on the numbers where we will go and all that stuff, I think that will explain to you.

Saravanan: And for the timeline sir?

Venkat Jasti: Everything we will come and give forth in time. As I said, we have not finalized our thought process on where it is going or what and then you are saying timeline, so all these things will come for the next time. Meanwhile, we are working on those things. With respect to the profitability, yes, based on the visibility, the projects and all the stuff, yes we are certain that the gap will be filled in.

Saravanan: So the increase in freight cost, is it affecting you sir, we know that the freight costs have gone up substantially, so is that the reason for the lower profitability in Q2?

Venkat Jasti: It is also a part of the reduction in the profitability as I said, but it is also because of product mix. This time the value-added products are not here meaning, that is what I was telling you. The future orders based on the visibility we have and the orders we have, the value-added products are coming that is why the gap will be filled up. Yes, there is an increase because of the COVID related activity, but not substantial.

Saravanan: Sir, one of the things you had mentioned was that there are two specialty chemical projects as well as one thing ANDA that could be commercialized by Q4. The timelines are the same?

Venkat Jasti: Yes, it is on target.

Moderator: Thank you. We take the next question from the line of Arun from Chasegamma. Please go ahead.

Arun: I would like to know that there were a few media reports which reported that you are looking for strategic sale of your Suven Pharmaceutical business, what would you like to say about that and please clarify upon that?

Venkat Jasti: See, these things keep coming whenever we thought of getting some funds into the company, this came one year ago, 9 months ago, every time it comes in, I am not going to comment on the rumors and nothing is happening as of now.

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

Ankush Agarwal: First question is on the formulations business, if you can give some stats on our ANDA pipeline in terms of how many we have filed, how many are under development, commercial and up through and also if you can give the royalty figure for this quarter and FY20 as a whole? That was the first question and secondly sir, in our latest annual report, there have been two qualitative comments that are mentioned, I will state the same for you, first one is creating a basket of formulations for our CDMO customers and second was, expand customer profile to local markets for multinational, if you can give some color on what does this statement imply for the future business? That would be okay.

Venkat Jasti: In the future business, what I was telling is, there is a possibility that we can align with our CDMO partners when the product goes into the generic, we can go to both API manufacturing for them for certain regions or the global including the manufacturing the formulations and supply for these certain regions. This is what the opportunity which we are evaluating with the innovators where we are working as CDMO. That is what it means. With respect to the ANDAs, so far we have filed 11 and 1 is the old one Taro, which is now becoming more or less nonevent because of the reduction in the sales that is happening and two more are there right now and two more are going to be, what you call launched, before the end of the year.

Ankush Agarwal: So 11 filed, 3 are commercial, that is meant and two more you are expecting by end of year?

Venkat Jasti: Yes.

Ankush Agarwal: And sir, how many are approved out of this 11?

Venkat Jasti: Only 5.

Ankush Agarwal: And if you can give the royalty figure for this quarter and FY20?

Venkat Jasti: This quarter it is Rs. 2 crore, FY20 only based on the sales, right now only two of these, one on the small and one of these okay product, the other two we had to see when it is launched, based on that. Right now, we cannot give any royalty figure prospectively.

Ankush Agarwal: No, I was asking for FY20?

Venkat Jasti: FY20, there is nothing. Other than the royalty…..

Venkatraman Sunder: No, it was only Rs. 6.4 crore totally for the whole year.

Venkat Jasti: No, but there is any profit share was there, there is no profit share, that is what I am saying. There is no profit share in FY20. It is only royalty on the Taro.

Ankush Agarwal: Sir, just one clarification on the first comment on the formulations for the CDMO customer, did you mention the comment that once the product goes generic that is when you are looking for this formulation in API business?

Venkat Jasti: Yes.

Ankush Agarwal: Okay, till the time it is on patent, you are only focusing on the intermediate part, right?

Venkat Jasti: I think you need to understand not for the same product, I am talking about. They have their own, I forgot to tell you, it is a life cycle management of my customers. Some of the customers are having a product which were not a part of it and these are commercial for long time and some of them are getting into a generic mode. So now when they know us for a long time, now that they know that we had a capability of formulations also and we have the facilities to manufacture the API also and they know our capabilities, now we are pitching with them that we can do the life cycle management by doing both the API and the formulation per se and so that is the cost effective and instead of them doing themselves which is a little bit costlier. So that is what I mean.

Ankush Agarwal: Got it, for a separate product line for your existing customers?

Venkat Jasti: Yes, then additional it will be.

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 related to the profit share amount what we get from Rising Pharma, so earlier we used to guide that for the full year FY21, this share could be close to Rs. 45 to Rs. 60 crore, so is that guidance also maintained for the full year FY21?

Venkat Jasti: No, because we could see that and these all depends on the, we have seen one quarter before two quarters last years and they thought things will move in the direction, but it is not in the same line. But that is coming in the consolidation. But that profit share is not going to accrue to us, it comes only as a dividend whenever they pay. When we say profit share, we are talking about the products we sell not necessarily the Rising for other customers where we get the profit share into standalone company, that's what we are talking about. Rising, it can go if they have one product launch suddenly there is a good spike of things and the value addition is there then the profit margins and then you get the profit allocation of 25%, whatever the net profits. But Rs. 48 crore what we are talking about based on the first two quarters of last year, but it was not to be, but right now it is Rs. 19 crore, it is going to be around Rs. 40 crore may be and put together for instead of Rs. 48 crore, I mean not much, it can happen also.

Venkatraman Sunder: No, last year 6 months is just Rs. 20 crore, against that it is Rs. 40 crore, but full year it was Rs. 48 crore down the line, we don't know next few quarters how it is going to be.

Abdul Puranwala: And sir, my second question was in relation to the clinical project, so until last quarter, we were also maintaining that there are some slowdown in the activity of addition in the clinical projects which we have seen, so are we now getting some additional queries or this improved visibility is due to we have some commitment from the customers related to the pickup of products.

Venkat Jasti: There are new projects have come in, second quarter, I told already in my introductory remarks and because there it is better in Europe and America last 3 months, but now we don't know what happens from this quarters onwards, but the second quarter is much better compared to first quarter. We have some projects come in.

Abdul Puranwala And my final question would be on the other expenses, so you already on the opening remarks mentioned that other expenses are going higher because of the environmental expenses and norms to be maintained, so sir, would we see a similar run rate going ahead for the full year as well?

Venkatraman Sunder: Yes, but profitability as I said, even with these expanded expenses we will go and maintain it.

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

Rahul Picha: Sir, on the ANDAs, we have right now 3 molecules under commercial supplies, and if I am not wrong, we had 2 during Q1. So have we launched one during this quarter?

Venkat Jasti: Not yet. We would launch hopefully one in the third quarter. If not, then certainly in fourth quarter together. Two will be launched before the end of the year.

Rahul Picha: Total we have three molecules under commercial supplies right now, right?

Venkat Jasti: Yes.

Rahul Picha: And of that, one is the old molecule which is with Taro, correct?

Venkat Jasti: Yes, the other ones are two different customers.

Rahul Picha: And sir, in the last quarter, we had said that formulations fields were Rs. 4 crore and how much was in this quarter?

Venkatraman Sunder: You are talking about the formulation sales for this quarter?

Rahul Picha: Yes.

Venkatraman Sunder: Yes, it is about Rs. 10.18 crore.

Rahul Picha: And sir, regarding the profit share, has that come in or it is yet to flow in Q3 or Q4?

Venkatraman Sunder: Partly it includes, but rest will flow in the following quarters.

Rahul Picha: And sir, the royalty amount that you mentioned a little while back, Rs. 2 crore per this quarter, so that would include the profit share amount?

Venkat Jasti: Yes, that includes Rs. 2 crore.

Rahul Picha: So Rs. 2 crore is the profit share?

Venkat Jasti: Yes, out of the cash flows, Rs. 2 crore is the profit share.

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

Sarvesh Gupta: Sir, first question sir, in your opening remark, you said that you are maintaining your 15% to 20% or more revenue and profit guidance for the full year, so if I work out the maths for H1, effectively you are saying around 63% growth for even 15%

revenue growth for the full year in your revenues and so 50-60% growth is what you are implying for H2 of this year compared to H2 of last year, so is that the right assumption, sir?

Venkat Jasti: See, I don't compare with any quarter-on-quarter, I am talking about year-on-year, so.

Sarvesh Gupta: Yes sir, for the full year, if we work out the maths, taking into account H1 performance of this year versus H1 of last year, then for the remaining part of H2, over last year's H2 comes out to 60% growth in revenue and 50% growth in PBT, is that is what you are implying sir, 60%-50% growth?

Venkatraman Sunder: The guidance what was given was based on the overall performance we have given full year, 15 to 20% growth of the topline that is what going to be achieved. Next 6 months, it is going to be achieved, it is based on the visibility that is why giving the guidance.

Sarvesh Gupta: That is what I was trying to clarify, for the full year you are saying 15 to 20% growth in revenues and profit before tax?

Venkat Jasti: That is correct, yes.

Sarvesh Gupta: So that is one sir, and secondly, sir this Rs. 600 crore CAPEX which is you are planning, so my question was that given that we have already embarked on this Rs. 320 crore CAPEX, where the fruits of that CAPEX is yet to come to us, so isn't better to kind of wait for at least this Rs. 320 crore to start generating something for us before embarking on another very big CAPEX plan because effectively if takes away a very large cash flows total, almost Rs. 1000 crore for a company of your size?

Venkat Jasti: Sitting from that side, you can say whatever you want, but the thing is, as I said earlier, in order to keep on staying in the business, things are changing, you need to upgrade yourself, you need to get the new technologies. You cannot sit on a laurel and you are saying. I told you already, don't compare us with these regular day and day generic kind of a thing. We need to do proactively things, we need to plan properly. If I said Rs. 600 crore, I am not going to do it today itself, it will start and it takes time, it will take 24 to 36 months minimum, so we need to do proactively, this is a technology upgradation, facilities upgradation, replenishment and R&D which is a must. And even our R&D, a new technology has to be built in, new capacity has to be brought in, things are there that has to be done. I think we take the call and I think we don't consult everybody's wishes. I cannot follow because everybody has a different way of thinking, why can't you go to the generic way, then you can do Rs. 1000 crore extra turnover and all the stuff. This is what we do best and that is what we are trying to do and what we are trying to do is we know why we are doing it. It may not be liked by more of the people who are on the line, but we are going to do it.

Sarvesh Gupta: And sir, this given where technology stands and your understanding of the same, our old plant as you said, some of them were even running for 30 years, so has that useful life now changed? Like this Rs. 600 crore CAPEX would be good for how many more years for us and given how things are changing rapidly as you mentioned, so what is the sort of life for this new asset as per your best understanding as of now?

Venkat Jasti: They will only be for 20 to 30 years, right and 30 years, how they have built it in those things, they have got as per the equipment inside is concerned, it is normal wear and tear that will be there in a replacement CAPEX. What we are trying to do is in a block-by-block replacement of the building, then when you take out everything, but all the pipelines it will they [some of them] will not use, even the equipment will not be useful, so you have to replace it with the new equipment and all the stuff. When it will go at least 30 years, it is not more, because unlike olden days, you don't dwell with what you call steel structures where they get rusted and those days, things are different and now the requirement are not there, all those things has to be taken care of now, so these is a necessary evil. I think to survive in this business you need to constantly upgrade, all that upgrade does not really review the capacity, that needs to be accepted.

Sarvesh Gupta: And finally on the employee benefit expense sir, this quarter, I think it was fairly high, so is it because of addition to our workforce or we had a salary hike or any explanation on that point?

Venkat Jasti: It is a combination there and see what happens is during the COVID time, we cut the number of hours they work. So that means we need to bring in additional number of people, so then all these things, some additional employees has to be brought in and not a continuous work will be done. But over time, based on those things are all involved and also involved are the increments that are given during the quarter also. It is a multiple thing.

Moderator: Thank you. The next question is from the line of Manoj Garg from White Oak Capital. Please go ahead.

Manoj Garg: Sir, just to understand your perspective, like when we look at other CDMO companies out there, lot of companies have spoken about increased number of inquiries and good say, order execution over the past 3 to 6 months and while you also highlighted that we have seen some momentum improving in Q2 over, but we had in Q1, but like to just pick your mind that how are you seeing overall response from the customer and have we been able to add any new customer in our kitty over the last 6 to 8 months, sir?

Venkat Jasti: The traction of the projects and the products are very good, visibility is good and as I said, second quarter we saw the people came out of the COVID and started doing the project and with respect to the customers, we have added one customer during the last 6 months.

Manoj Garg: And sir, with regard to the pipeline, while I understand the pipeline, the projects has long justice and period, but just seeing between the pipeline and movement from pre-clinical Phase-1 to Phase-2 to Phase-3, is there anything significantly which you would like to poll upon in terms of how the moments of the projects happening between the phases sir?

Venkat Jasti: Yes, moment is as I was telling last time, I was telling the moment is good, otherwise we will not be able to get revenue generation. I told last time that people are generating larger, too many projects, but what are the projects they take in, they are prioritizing as their single project and if it is good in the clinical trial if they are moving into the next stage. In good olden days, 5 years ago, they used to have 2 or 3 products in the same category, even though if one product is good at one stage and we may not have prioritization, if I happened to be investing it was not there not at this moment, but now it is not so. Things are moving very good.

Manoj Garg: And just the last question from my side sir, of this new incremental CAPEX which we have outlined, are you also going to add some more capacity on the occupational exposure level for where we already had one plant which I think is going to be commercialized this year, are we adding more capacity in and around that area?

Venkat Jasti: Whatever we are going to do in the new pure capacity expansion, that will be taken care of other requirement, you don't need to put the same thing, there may be different requirements. As I said, we have not finalized our thought process yet, but this is what we need to do with the long gestation**,** these are all long gestational projects, and we need to do proactively, and we look at our pipeline and the customer requirements. We will also try to include those things, not only in the regulatory compliances, not necessarily for FDA, but it is the customer regulatory compliances, but also technology-based activity. Its same thing may not be, but it is a multipurpose block anyway.

Manoj Garg: And sir, you also have outlined in your notes that you would also be looking for some technological tradition or capability enhancement, so it would be great sir, if you can outline that what are those area which you are looking forward in terms of additions.

Venkat Jasti: Looking many areas, but we have not finalized which one is the first one to go through, so things are going, it is in a thought process. That is what it is. We have taken the provision from the board to have this money to be spent over the years and also for the purpose how we raise the money, whether it is in-house or some QIP, all those things will be taken care of in the next 3-4 months.

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

Ankit Gupta: Sir, we have been following our company for 5-6 years now and you have been known to be a very conservative guy over the years and sir, embarking on this around Rs. 900 crore CAPEX including the Rs. 320 crore which we are currently undertaking, sir, any thoughts on the capacity expansion part on where we are actually increasing our capacities, is it that we have more projects in the pipeline, our existing customers are coming to us with more products, any thought process on that sir and that is why we are embarking on the capacity enhancement as well in this Rs. 600 crore CAPEX that we are taking?

Venkat Jasti: I think you keep on going on the capacity and capacity. From the beginning I was telling it is not a capacity expansion proposal, it also includes capacity expansion, but includes the atomization and replacement of the old blocks and also the relocation of the R&D center which is going to be a future problem because we need to move on from the inner ring road to outer ring road, so all this thing would occur. It is not purely, may be only 20-25% probably goes for capacity expansion, the rest of them are going to be qualitative in nature, not quantitative. So, without that, who will show up from and if you don't upgrade yourself in the modern requirement, keeping it as a 25-year-old, 30-year-old facilities will not be good and also to put new technologies that will not fit into that, so all these things has to be taken into consideration. So don't take this as purely capacity purpose we are doing that, yes, but whatever capacity we are doing that is only with the understanding that projects will move into the next range and with good traction it is going on and we expect that to happen also. But right now, I cannot give you guarantee that it will happen tomorrow or day after.

Ankit Gupta: Sir, on the pharma and agrochemical side, any new products that will get commercialized in FY22. Any hope that the pipeline will move from phase III to commercial stage on the pharma side and agrochemical? Any new more molecules that we have added and that we plan to launch in FY22 apart from the earlier plans that we have?

Venkat Jasti: Yes, in agrochemical, there is one product that will move into commercialization in the fourth quarter, so that will really include into FY22. Similarly, I see this one molecule also moving into Phase-3, additional molecules that also will give us some revenue in the next few quarters.

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

Cyndrella Carvalho: Sir, I just wanted a few clarifications from your side that this quarter that we are seeing, you also highlighted that we have seen some improved demand in terms of new projects, improved project requirement which are coming in, so are we seeing this in this quarter or it should be more reflected in the second half?

Venkat Jasti: No, we have seen in second quarter itself and there is continuity as of now. Only thing I said now there is going to be a lockdown both in US and Europe, what will happen to both quarter we don't know. But as of now there things are moving well compared to COVID days of the first quarter.

Cyndrella Carvalho: And sir, in terms of our specialty chemical area, what number we have guided, earlier we maintained that as well, right?

Venkat Jasti: Yes ma'am.

Cyndrella Carvalho: And sir, just again on the R&D side, the capacities that we are bringing in, what are the recent technology-based requirement that you see in our company which is most required, if you could highlight on that it would be very helpful?

Venkat Jasti: Now, we have not yet finalized any of the things, this funding only the in-principle approval we have taken as I said earlier, we are in the process of getting in touch with the customers because we have some thought processes, so which one should be the first one to go into the implementation, in collaboration with our customers, we will prioritize those things. All these things will take another 3 to 4 months, so it is not going to be tomorrow, we are not going to do this tomorrow itself, but it takes another… and it will be over a period of 36 months.

Cyndrella Carvalho: So we will get more clarity in next quarter or may be somewhere there to understand where we are going?

Venkat Jasti: Sure.

Cyndrella Carvalho: And sir, in terms of if we want to call out, what is the COVID related expense this quarter? Do we want to and the incremental additional spend if you would be able to?

Venkat Jasti: We have not taken any separate account on those things because these are all embedded in various aspects and updating them it is difficult, and we have not any done any exercise like that.

Moderator: Thank you. The next question is from the line of Avneesh from Newaar Group. Please go ahead.

Avneesh: I just want to have an idea as to which area of business you are seeing the highest growth in terms of APIs and formulations and my second question is, there is an increase in current assets and inventories in this quarter, so just want an idea as to what exactly has happened causing this increase in current assets?

Venkatraman Sunder: When it comes to the current assets, nothing much is moved. See the inventories have gone up by about Rs. 22 crore, whereas the receivables has come down by

Rs. 11 crore. If you really look at overall it is a minor moderation, that is what has happened and when it comes to the, of course, mutual fund investments, there is a growth of Rs. 40 crore. That is there actually, and we have in the form of cash. The current asset includes this part of also.

Avneesh: If you compare from 31st of March or till 30th of September, the current assets have gone from RS. 5,462 lakh close to….

Venkatraman Sunder: It has gone up by Rs. 33 crores, there is a mutual fund that also gone up by Rs. 33 crores because of profitability.

Avneesh: And second is, on the growth of the business which area are you seeing the highest traction in growth in terms of business?

Venkat Jasti: There is nothing like highest, everything is except this specialty chemicals which is more or less in the same range, both CRAMS and the formulations will grow in the same range of 15 to 20%.

Avneesh: And any patents coming up for the APIs as well, is the company planning to file any patents for new APIs being developed this financial year?

Venkat Jasti: No.

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

Anand Bhavnani: I have two questions, sir, these are still the commercial CRAMS, I guess in the previous call you have mentioned that one is antidiabetic, another one is rheumatoid arthritis. So if you can give us some sense of how you are seeing each of these commercial CRAMS for us, which one is scaling up and which ones do you see that we might not be able to be the best supplier, somebody else is already high priority supplier. Can you give us some guidance on already commercialized molecules, how do you expect them shipping up?

Venkat Jasti: As of now, things are looking good and we expect the growth to continue, but it cannot be on a quarter-on-quarter basis, not even year-on-year basis, may be sometimes in 9 months, it may be repeat and it may come, sometimes it will take 18 months to come in and we cannot tell how it is behaving based on the sales, then only we will get the repeat business. As I said, we will not be a single source, we were thinking that do we lose anything, no, but as one of the products we will be getting our share. It all depends on the market dynamics, but as of now, things are looking good.

Anand Bhavnani: This is for all the commercialized products or pertaining to any particular product?

Venkat Jasti: As I said, these are all across all the things, but at the same time it may not be at the same time, so that is where it means, that is what I was trying to tell because repeat of the, in the same range, the manufacture is going a little bit better than what was originally there, but it is in the same range, but I don't see any slowdown as of now.

Anand Bhavnani: And sir, for our specialty product we see that globally agri prices are up, so do you see, given that our specialty products goes into agrochemical, do you see that it will be able to have higher growth over the next couple of years given the agri prices are up? Is there any indication from our customer to kind of ramp up and keep our production capability at the highest levels?

Venkat Jasti: No, as far as production capability is concerned, we will be getting enough and advance notice for us to clear another block and all those, that is not a problem. As you know, as I said two more products are under development, one will be commercialized sometime in CY21, FY22 and the other one will be sometime in 23 years, 24 timeframes. With respect to the existing molecules, as I was telling before they are in the same range, 5% this way or that way. That is what the guidance they had given to us.

Anand Bhavnani: Sir, with respect to CAPEX, in our previous calls, we used to consistently check with you how it look for CAPEX and broadly the sense was we might not need much CAPEX beyond the current Rs. 320 crore CAPEX, for FY22-23, we might not meet there, so suddenly in 2 quarters, your thought process had changed a bit and you now talk about adding technology and refurbishing the plant. So why had there been a sudden change in the thought process to this end?

Venkat Jasti: There is no sudden change. I don't tell what are my thought process which I don't formalize myself in front of people, someone was telling that you so conservative, never spend money or anything. So times are different and spending is different and now that is acute play CDMO there is no problem with respect to the commitment to the other side and all the stuff and we can expand ourselves and go, so these are all things in mind, but it has to come to a certain time, then only we can take a decision and as you know this is our only CAPEX not just for the sake of capacity expansion, but this being a 30-year-old company, some of the buildings have to be replaced and when you replace, then you need to do a little bit better layouts and automations and even including new technology, but bulk of the activity also goes to the relocation of the R&D factory itself and when you do the R&D center, rebuilding the new technology, that also has to be brought. As I said it is not a thought process, it will not be able to give you unless myself thought on it and these things are there for long time, but we have to wait for the opportune time and I don't have any obligation for anything else and I don't mind spending money. So that see this is a catch-22 situation, you have to have the infrastructure in place in order to service, but not after getting the projects, you cannot do it and this is also the requirement, the global customers especially in the CDMO field, they expect you to even for the early stage intermediate to have approved kind of a facility, so these things are all taken into consideration and to sustain in the business model, it is not a thing like a commodity where you can churn out things and here it is more of the qualitative in nature which we need to do it and at an opportune time and also we see what is happening in the market and we the traction that is happening, all this things figures to the point where we take up these decisions.

Moderator: Thank you. The next question is from Sachin Kasera from Svan Investment. Please go ahead.

Sachin Kasera: Just one question on ANDA part of the business, you mentioned that you have filed 11 ANDAs, how many we plan to file in the second half and in FY22, sir?

Venkatraman Sunder: Another 3 to 4 we try to do it if everything goes well.

Sachin Kasera: And next year sir?

Venkat Jasti: Our target is about 7 to 8 per year because we are at various stage and we are slowly going.

Sachin Kasera: Secondly sir, of the existing ongoing CAPEX of Rs. 320 crore, how much is now pending CAPEX?

Venkat Jasti: About Rs. 75 crore or something like that which will be spent within the next 4-5 months because Vizag client we are going to start validation in this quarter and the FDC where the formulation plant will come in we have to do validations back in the fourth quarter. With this, the CAPEX will be finished for the existing operations.

Sachin Kasera: And sir, are we getting any good visibility of this existing this Rs. 320 cr ongoing CAPEX, now that we are almost on the verge of completing it, how are we seeing the visibility for utilization of this Rs. 320 crore CAPEX?

Venkat Jasti: See, the thing is already we started doing things in a pilot plant and which is not enough for the formulations, that is the combination thing, and with respect to these things, the capacity expansion is the royalty products, and we see this FY22, we are seeing that one more project from the specialty chemicals is coming in. We are taking permission from the existing partners to give the new projects in their new facility, so that will be qualified also. So visibility is good, but we have to be proactive and you have to build your capacities 24 months ahead of time as far as I am concerned, my business model is concerned. So these are the things which we had, so things are looking good, yes.

Sachin Kasera: So we can assume in 24 months, we should be able to realise good utilization, that is a reasonably good estimate?

Venkat Jasti: Not necessarily everything fructifies, but yes.

Moderator: Thank you. The next question is from the line of Venkat from 3Sigma Financial. Please go ahead.

Venkat: So I wanted to ask you how is the domestic and export mix?

Venkat Jasti: Domestic and export?

Venkat: Yes, how is the domestic and export percentage?

Venkatraman Sunder: No, most of our things are exported, we have very less domestic.

Venkat: So, the next question I wanted to ask I am just summing up whatever was discussed on this additional CAPEX we are talking about, it looks to me like replacement cost, improved efficiency, technology upgradation which will be useful for R&D and 20% will go for CAPEX improvement, right, capacity improvement, so is my understanding right, sir?

Venkatraman Sunder: What you said the first is okay, but there is nothing but 20% increase in capacity kind of thing, we didn't say that.

Venkat: I am just coming up to replacement cost, improved efficiency, technology upgradation per R&D?

Venkat Jasti: Yes, but we have not apportioned the amounts to how much and all what it is and we will get back to you after a couple of months.

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

Darshit Shah: Sir, just wanted to understand, I understand you have stopped giving phase wise details of the products moving into different clinical trial. Sir, any product in the

CDMO pharma space which you think could probably move from Phase-3 to commercialization, if at all successful in the next 12 to 24 months?

Venkat Jasti: There is always a possibility, there is a product which I have concerned last time ago and project in Phase-3 which we are supplying that may move into CY21 roughly. Similarly, there is another one that gets moved into Phase-3 that we will be supplying in the next 6 months.

Darshit Shah: Sir, that is for agrochemical or pharma space?

Venkat Jasti: Pharma.

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

Vivek Gautam: I just wanted to know about, from 3 to 5-year perspective, what is the opportunity size we have and do we depend on, we are enhancing our marketing capabilities to make more business or is it more lot of mouth and any role model we have like Lonza or Wushi can we have something of that because we have a 30-year head start also?

Venkat Jasti: 30-year head start but we are not in this business, all the time this way and at the same time. The role models are also there but our business model is also different. Next 5 years looks good, otherwise we will not be doing what we are trying to do in terms of upgradations and capacity expansions and the technology absorptions and all these things which we are taking because we see good traction that is happening and also expansion of business model which we have done who were not there in the formulations, ANDAs and we are doing that and the new technology and upgradation of the facilities and new opportunities will pop up and that will give us a better traction and we see very good thing. Otherwise, we will not be able to think upgrading this kind of model.

Vivek Gautam: Marketing expenses, are we putting an additional or is it more of additional manpower and how do we get more business, sir?

Venkat Jasti: Which one is that?

Vivek Gautam: Marketing new sales products?

Venkatraman Sunder: The thing is that when it comes to Suven, we don't have specific marketing per say, what we have is project management and we have a team set up in US where we have project management office, where our team which is more from the technical point of view talk to the customers who are basically R&D as well as procurement specialized in R&D. That is what we do. We are not like taking a bag and then going around and marketing ourselves.

Venkat Jasti: What happens is these being an R&D projects, the customers would like to have it because this is a weekly or bi- weekly teleconferences and during the daytime, if they have some question on the project, then they can call the people who are in the US rather than waiting until next day because at that time we are sleeping. Similarly, now we are thinking of, with business growing, then we are thinking of putting the same project management team in Europe also. I think that will be done within the next 6 to 12 months.

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

Ankush Agarwal: Sir, just one clarification, you just mentioned that total formulation sales were Rs. 10 crores, out of that Rs. 2 crores were royalty and if I am right, last two quarters you have mentioned that the formulation we give at cost and later on we get royalty out of it. So, would this assumption be right that out of this Rs. 10 crores, the Rs. 8 crores is what we have given at cost and this Rs. 8 crore will generate royalty for the next quarters coming up?

Venkatraman Sunder: We need to understand that royalty is only from Taro. The other ANDAs, it is like we sell the product with the margin and we get the profit share. The profit share is realized based on the sales happening at the customer end. If the sales happened in the following quarter, we will have some profit sharing, if the sale happens to the following or next few quarters, it will happen that way. As and when the sale realization happens then the profit sharing happens, so to make it very clear, I would say last year it was only Rs. 2.32 crore what we have reported, you are talking about corresponding previous 6 months. It was Rs. 2.32 crore of royalty only from Taro, there was no formulation sales. This year, the first 6 months formulations sales of Rs. 18.88 crore which includes Taro Royalty, little bit of profit sharing and the ANDA sales. Hope that is clear.

Moderator: Thank you. The next question is from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: Just this question was with respect to your ANDAs you mentioned about filing 3 to 4 every year, so in the first half have we filed any and else will we be filing all of these in the second half?

Venkat Jasti: Nothing is filed in first half and we are expected to file this in second half.

Pallavi Deshpande: And secondly sir, you mentioned about new hires done, so how many employees would have been added?

Venkat Jasti: In Europe?

Pallavi Deshpande: Yes sir.

Venkat Jasti: To start with one and it will be two people maximum, not much, because this is a project management, these are all technical people.

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

Gokul Maheshwari: Just couple of questions, one is on ANDA. You mentioned that the potential size could be $2 to $4 million for the initial one and for the ones which could be filed later on these potentials could be larger, is that understanding still correct?

Venkat Jasti: Yes, that is where we are our thinking. But it all depends, it can be whereas $2 to $3 or $4 million is the maximum that can happen, but not all of them will be in that range, some of them will be less than a million also because the volume of the business is not there or whatever it may be. So that is our guess estimate, but we have given a guidance of.

Venkatraman Sunder: No ANDA, we said about Rs. 2 to Rs. 4 million per product, but 4 products maximum.

Venkat Jasti: Not that for every product is in the range, but if you want that clarity.

Gokul Maheshwari: But the later on ones would be higher because we were spending more time in terms of?

Venkat Jasti: Yes, when you go eventually to 505 b(2)s and all that stuff, that will be couple of years away from now that then the value will be much higher.

Gokul Maheshwari: And secondly just one, what would be the expected effective tax rate for FY21?

Venkatraman Sunder: It is going to be normal as we see, it will be around 24%.

Moderator: Thank you. The next question is from Rahul Garg from Shefa Family Office. Please go ahead.

Rahul Garg: My question is regarding this Rs. 320 crore CAPEX. Is that completely new capacity or we have technology upgradation as well and second question is about appointment of CEO which we talked about earlier, has that been fixed and would you like to completely rule out the stake sale?

Venkatraman Sunder: For account of the Rs. 320 crore CAPEX, yes, these three were addition of the capacity, one in JNPC Vizag, we added one more block and then other one is the OEL4 capacity which you added one more block in Pashmylaram and formulation facility is the new formulation facility adjacent to the current one what we have. That is the Rs. 320 crores, there is the addition of the capacity. What was the other one, the next question?

Rahul Garg: Appointment of the CEO, the professional setup which chairman has spoken about earlier I guess?

Venkat Jasti: Yes, we are looking, but unfortunately due to this COVID, things have not panned out as I thought of and we have thought of somebody to bring in, but that is not happening as of now. But we are on the lookout.

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

Ranvir Singh: My question is around gross margin, second half is likely to see a change in product mix because I believe that the specialty chemical would be heavier, so do you see any change in gross margin profile or so going forward from what we have in H1?

Venkat Jasti: Yes, if you really look at from the gross margin point of view, it is all based on the product mix what we have and as we see the next two quarters, we need to see there is likely to be a change. It cannot be static as what we said.

Moderator: Thank you. The next is from the line of Varun Arora from Safe Enterprises. Please go ahead.

Varun Arora: Sir, my question is regarding the capabilities in terms of where we are moving, couple of quarters back I think you mentioned that right now we are focusing on N-2 molecules. But we have the capability and endeavor to look into N-1 and N molecules. So the question is regarding how are the discussions evolving on this front with the customers?

Venkat Jasti: Actually, last time also I said it takes a while before you get to the next level, even to change the existing product from one unit to the other unit is also taking 2 years for the approvals. So we have requested our existing customers to keep us in mind to the forward integration and give us the opportunity and which they are evaluating. I think it will happen and it will take time and it will happen eventually.

Moderator: Thank you. The next question is from Neha Agarwal from SageOne Investment. Please go ahead.

Neha Agarwal: Sir, my question is with regards to the CAPEX again, could you highlight how many years of growth and maintenance requirement on an overall basis, do you think the existing and proposed CAPEX put together to take care of?

Venkat Jasti: I think I want to give some explanation on the CAPEX. People were may be thinking the good olden days, the cost of the goods that is happening in the plants. When I started, I could do within Rs. 10 crore whole company, then Rs. 10 crore for each block, now to put a block itself is costing Rs. 120 to Rs. 150 crore. Costs have gone up, the requirements have gone up and all these things, how many years it will run and as far as Suven is concerned, it is not any kiloliters and the capacities are not the one. This is a value addition we are bringing to the customer which in turn will give the value addition power on the bottom-line. This is the cuts of the CAPEX, it is the upgradation, replacement and some capacity creation, not a few capacity base, so please everybody, don't think that it is only for the capacity expansion, this is for the value creation. It is qualitative in nature and it will run. It will take 3 years to implement this activity and it is also involved in the R&D center which is mainly replacement also. It is the upgradation, so it will not give you capacity, but it will give you additional capabilities. That is what it will bring to the table. The additional capabilities will bring the additional business opportunity with two value addition for the CAPEX for the same customer or whatever it may be. So that is way we would look at it, we don't look at pure capacity only and asset turnover. All these things are not feasible in Suven's business model.

Moderator: Thank you. The next question is from the line of Akshay Sam from Asman Capital. Please go ahead.

Akshay Sam: Just wanted to, because you said a lot of the CAPEX will be utilized in upgrading technology, etc., I just wanted to understand what kind of capabilities we will be able to acquire which we did not have earlier?

Venkat Jasti: I have already clearly mentioned that we are evaluating various things. We have not finalized which one to be implemented first. We will be in collaboration with our customer’s requirement and customer preferences we will be implementing those things. This is an in-principle approval by the upgradation capabilities and replacement things which we have taken permission from the board to spend around Rs. 600 crore over the next 3 years.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question relates to specialty chemicals, what proportion of the new CAPEX and the Rs. 320 crore pertains to specialty and what is the growth outlook for specialty?

Venkatraman Sunder: When it comes to the Rs. 320 crore, of which Rs. 110 crore gone into the block which is multipurpose in JNPC, of which we have been using specialty chemicals most of them, that is how it is. As per the growth is concerned, we said actually we have two right now and that we did not give any visibility for this year's growth in specialty chemicals, it can be same.

Venkat Jasti: And the new things will be the new projects that were not launched, one in FY21 and one is hopefully in FY22.

Moderator: Thank you. The next question is from the line of Piush Goyal who is an Individual Investor. Please go ahead.

Piush Goyal: This is… I invested in Suven first time 2009, so this is my 11th year and it has been great journey so far. So I just want your honest answer that last year we did this split between Life Sciences and Pharma and I think the motive behind was that this different risk profile and where investors wants to have a different risk profiles, so has it worked as you envisaged or you feel it has not and also basis our risk profile, I know you said that you don't want to comment on the rumors, but do you intend to bring institutional investor in any of these businesses?

Venkat Jasti: So whether it has given the desired results or not, I think you can see for yourself. You are an 11-year-old investor, 11 years in investor and you see what happened, since March when the demerger has taken place and the value addition has come to the customers. As per the strategic investor or something is concerned, yes, I told you already that we are looking that per the Suven Life Sciences and that is an active thing. If not strategic investor, we will go for even IPO in USA in neurosciences and all because now that has to be funded by itself. Earlier, we used to fund through the CDMO revenues, now it is a separate company and now without that things are hanging out their head on the Suven Pharma, the valuations are different and now with this new traction that is happening, and the new upgradations and all these things are looking very good in the pharma also. This is where it is.

Moderator: Thank you. The next question is from the line of Vainath B who an Individual Investor is. Please go ahead.

Vainath B: Like Piyush, I am also an old time investor, may be around from 2012 onwards and it has been a pleasure to be associated with you, your prudent approach actually satisfies me. With regards to this CAPEX, we have answered lot of questions, but I would like to know the same prudent approach which you have taken over the period of years with regard to it with very less of loans and more of internal accruals, will the same be followed?

Venkat Jasti: Yes, now that we don't need any other things which we need to use this pharma money. Before we used to use it for Life Sciences, now that is done, so we have to take and some people come to me and say that why you are using your own money, you should take term loans. I don't know what to take into, but anyway we will take some loans as needed, but we will not be overburdened by it anyway. And as time goes by we will take a decision of what to do. It will be dilution from the QIP like what we did before and we will take into consideration all those things, whenever it is needed. We have not finalized our thought process for the new CAPEX and all the stuff which is in the next 3 to 6 months.

Venkatraman Sunder: To make it simple, yes we will do as prudent as we were earlier.

Vainath B: That really satisfies me to keep going with your company for a very long time. And my last question since I am allowed only two, my last question would be like this government has now introduced some funding schemes for PLI schemes or whatever they call for the pharma industry to reduce raw material imports from China. And as much as I know Suven was dependent on a couple of raw materials from China for their business, for our business. So is it that we can get into it to reduce the import cost and as well as supply different customers internally as well as externally?

Venkat Jasti: See, the PLI scheme is mainly APIs per the intermediates and the generic APIs, most of them, not for the intermediates as a raw material for the innovative products. But I don't think Suven has a role to play in this unless you want to go into the API, pure generic API, and that to the price is controlled afterwards and this is more of a top rather than a walk you can say because finally it comes to 2 to 4.5% and there are so many restrictions and even though they are removing it, but this may be useful for those who are already there in this business through generic APIs, but since it is our innovative molecule and there is a problem if we have to face it is China, so those molecules that are required day in day out, those things we are trying to backward integrate and keeping it ready. It may not very cost effectiveness, but it is supply security, that is what we are going to do. We are doing it.

Moderator: Thank you. We will take that as the last question. I would now like to hand the conference back to the management for closing comments.

Venkat Jasti: Thank you everyone for tuning in on Saturday afternoon and I want to leave with the thought that whatever Suven does in terms of these CAPEX plans, please do not take it as a pure capacity expansion, but we are value creators and for the value additions, we need to play the capabilities and capacities as a part of it. But at the same time being a thirty plus year old company, the old infrastructure has to be replaced and those things and also relocation of the R&D center with additional capabilities. All these things are qualitative in nature, they don't give you right away what you call the incremental growth. But in general if you see quarter-on-quarter, you will be happy, you may not have a good idea and this is our way in our history and we will go into. But we are seeing very good traction in the business and with the additional capabilities and capacities whatever we have created, we expect the things to grow smoothly and we have did even though it is 20% less in 36 months. We are still confident of achieving the minimum of 15% to 20% over the next 6 months over the year-on-year basis and with that I thank you each and every one and hope to catch up with you during the next call. Thank you.

Moderator: Thank you very much. On behalf of Suven Pharmaceuticals Limited that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.

Please note: *We have edited the language, made minor correction, without changing much of the content, wherever appropriate, to bring better clarity.*