



Suven Pharmaceuticals Limited Q3 & 9M FY21 Earnings Conference Call Transcript February 11, 2021

Gavin Desa: Good day everyone and a warm welcome to all of you participating in Suven Pharmaceuticals Q3 & 9M FY21 Earnings Call. 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. We shall start this call with opening remarks from the management following which we shall have an interactive Q&A session.

I would now request Mr. Jasti to share his perspectives on the performance and outlook. Over to you, sir.

Venkat Jasti: Good afternoon, everyone. Thank you for joining us on our earnings conference call for the quarter and nine months ended December 31st, 2020. As you could see from the results, I think we could catch up some of the slack from the past six months and things are moving well except for some logistics problems and a bit of high cost on the transportation and some raw material increases and all those stuff, due to the COVID situation but things are coming to very much normal at this stage and we also see some new additions to the projects during this quarter. All in all, it is going well and as per the previous conference calls the guidance of 15% to 20 % growth will be there for the year ending March 31st, 2021. Trust everyone would have gone through the results documents earlier and I think it's better for me to answer to your questions rather than giving you a run around for these activities.

So I leave the floor open for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mitesh Shah from ICICI Direct.

Mitesh Shah: My question is regarding your revenue. Sharp jump in the pharmaceutical and spec chem has a sudden drop. Is there any one-off or in line with management expectations?

Venkat Jasti: No, there is no one-off here because in this business everything is a one-off. In the sense, if you see in the CRAMS business if you are the supplier for phase-I compound and if the repeat business does not come back in another one and a half year to two years, similarly for the other phases. It is a product mix and number of projects we have done and the supplies we have done. So there is no one-off as of today.

Mitesh Shah: Even last year also, in Q2 there was a sudden jump in the sales similarly in Q3. Is that because of the shipment delay or shipment timing difference over there or at

particular time you had better contact, I just wanted to know, how do you manage your capacity because it is a sudden jump in Q3 and last year Q2 you said because it was of the shipment. Did you manage that thing?

Venkat Jasti: Sometimes shipments done in the previous quarter could have come into this quarter. So, there's a possibility that has happened, it always happens, last 10-days difference may move to the next quarter, but in general you cannot compare quarter-on-quarter. It is not a generic product where I make and supply like that, this is a product we take up and sometimes by the time we start the production and by the time we ship, it maybe four to six months to eight months. So it is a mix, and it is the duration, you have to see year-on-year rather than quarter-on-quarter basis.

Mitesh Shah: Can we expect to surpass your guidance?

Venkat Jasti: We stick to the same guidance what we have told; it will be 15% to 20% guidance and growth.

Moderator: The next question is from the line of Ankush Agrawal from Stallion Asset.

Ankush Agrawal: Firstly, if you can give some data points in terms of how much was the formulations sales for the quarter and what is the royalty and profit share that is included in that? And also on the ANDA front if you can help me how many ANDA filings we have done till now, how many commercial, how many approved and how many under development?

Venkatraman Sunder: We have formulations for this quarter is about Rs.12.55 crore and others about Rs.10.7 crore and for the nine months period formulations total is about Rs.31.43 crore and other services about Rs.36.66 crore.

Venkat Jasti: Six ANDAs has been approved, last quarter one form product has been launched and this quarter one ANDA will be launched and another six are there, there we expect them to be approved sometime in the calendar year 2021.

Ankush Agrawal: So till now there are five commercials, right?

Venkat Jasti: Yes, that's right.

Ankush Agrawal: How much was the profit share of royalty that was included in the formulation sales for the quarter?

Venkat Jasti: That is a trailing time, it takes time to get into the things, but we are not giving you that break up at this time because it is a moving card.

Venkatraman Sunder: Part of the profit sharing is already included in Rs.31.43 crore.

Ankush Agrawal: Right actually, for the last quarter, you gave a number of Rs.2 crore. So I was wondering if you can give it for this quarter.

Venkatraman Sunder: That was only for the royalty of Malathion that is what we have given actually. Beyond that this profit share we are not trying to split because there is a time lag from one quarter to the other quarter, if I sell this maybe next quarter or the following quarter, we will be getting a profit share. So for us it is all bucketed as the formulation's revenue. That is what it really means.

- Ankush Agrawal:** My second question was if you can help me understand how the business economics of our specialty chemicals and the pharma CRAMS is different, because till now in case of specialty chemicals we have been able to give some kind of visibility in terms of when the molecule is going to come online and back in 2015 when the first time we had one specialty molecule you had given a guidance so that it's a contract for next five to seven years but in case of commercial CRAMS you have been saying that it's an understanding, it's not a proper contract. So if you can give me some understanding like how the business economics is different, how the development cycle is different for a specialty chemical or commercial CRAMS project?
- Venkat Jasti:** See, in the CRAMS until it becomes a commercial product, you do not know the volumes or whatever it is. Even when it becomes commercial you do not know whether it is a yearly or 18-months or 24-months cycle it will have depending on how it behaves in the market. Wherein specialty chemicals when it becomes a commercial, they will give some kind of guidance compared to the pharma CRAMS and based on that we give you the guidance. So, that is what the difference between the pharma CRAMS versus the Speciality chemicals CRAMS.
- Ankush Agrawal:** Is there some difference in the development cycle between commercial CRAMS in the pharma side and on the specialty chemical side?
- Venkat Jasti:** No, chemistry is chemistry. Where it is going is the question, but there is no difference.
- Moderator:** The next question is from the line of Venkat from 3Sigma Financial Services.
- Venkat:** During the last quarter you mentioned that we are trying to have partnership with MNCs to manufacture in India. So is there any status update on that?
- Venkat Jasti:** Yes, we are in touch with them and it is going on but the time it takes is two to three years minimum before you get anything because the understanding has to happen and for the evaluation QA team has to come in and do the exercise and then again validation, all these things, it will not happen overnight or quarter-on-quarter. Things are going on. We are talking now to two customers. They are inclined to look into this aspect, not that we have got any business out of it.
- Venkat:** Sir, my next question is we are hearing that large European companies are moving towards green chemistry and asking their vendors to move towards that. Can you throw some light on that if there are any plans for us as well?
- Venkat Jasti:** That is a part and parcel of our core R&D process. Whenever we do this, we try to abide this green chemistry principles because it is not today we are doing that, it is from the beginning, but there is only so much green you can do in the chemistry, not everything is possible. But yes, it is a part and parcel of the development of cycle.
- Venkat:** So, there will not be any additional expense if there is any move towards green chemistry with insistence from European companies moving forward, is my understanding right sir?
- Venkat Jasti:** There is nothing like moving. Every chemistry will have some effect, while some are highly polluting, you will try doing different synthesis, routes and different chemicals using it to get the same product and some kind of automation and some kind of one part reaction so that other products will not form, a few products only will form. All this is part and parcel. There is nothing like a separate thing, you have to set. Chemistry is the same but at the same time you try to optimize the process what you

have to reduce the pollution load either the emissions or the liquid emissions or the liquid affluent or the solid affluent. This is what green chemistry is all about.

Moderator: The next question is from the line of Abdul Puranwala from Anand Rathi.

Abdul Puranwala: One question on the CDMO pharma of space. So, could you please provide any color on how many numbers of molecules we have been able to add this quarter and what number of molecules we are generating this kind of sales for the quarter?

Venkat Jasti: I think last time also I have said, correlating with the number of molecules is not practicable. So only thing what I can tell you is compared to the earlier two quarters, we started getting the new projects which are going to give revenues in the future by the way, because these are all mix, and match and I cannot collate with one another. So that is why we are not giving you that kind of a breakdown at this time.

Abdul Puranwala: The 15% to 20 % PAT growth guidance is for this year. So, would you like to provide any guidance for next year or how would FY'22 pan out for us?

Venkat Jasti: As of now I cannot provide too much because our visibility is only for six months. But our traction is good, and we hope to achieve the minimum similar type of things. Right now, we hope to achieve that but further we do not have any visibility, I cannot guide anything. Maybe in next conference call I will have visibility of the next six months and we will be prepared to answer your questions.

Moderator: The next question is from the line of Rahul Picha from Multi-Act India.

Rahul Picha: Firstly on pharma CRAMS. In nine months, FY'21 we have already done a revenue of Rs.489 crore which compares to about Rs.468 crore in the entire last year and earlier we had guided for about 20% growth in this segment. Now the numbers that we have achieved in the first nine months it seems to be much higher than what we had earlier guided. So where exactly have these positives surprise in pharma CRAMS come from?

Venkat Jasti: It is a product mix and also the duration of the project, sometimes the project will be three to four months, sometimes it is five to six months also, sometimes it moves into next quarter, so you cannot compare quarter-on-quarter, but year-on-year is what the guidance. Last time, when everybody share is going down, but I was telling all the time and we do not look quarter-on-quarter because these are all lumpiness that happen in this business and year-on-year growth will be there and that is what we are trying to achieve.

Rahul Picha: So you mean to say that you still stick to the 20% growth guidance in this segment?

Venkat Jasti: Yes, 15% to 20% as on today.

Rahul Picha: Secondly sir, it seems that the profit share recognition on our two ANDAs that we had launched by H1 this year, has not still meaningfully contributed. So what has been the reason for that?

Venkat Jasti: The profit share has come but we are not giving you each item-by-item profit share and sale prices. We are lumping up all in one as you know, these are very-very small molecules, and you will not be having a bumper crop like in other big pharma. We are saying this is an average exercise but it is going good, and it will grow at 20% to 25%. So all put together only, we cannot give you break up of each item.

- Rahul Picha:** In the earlier calls you were discussing about what could be the potential profit share contribution for ANDA and you were saying it could be 2 to 4 million per product or so?
- Venkat Jasti:** Maximum I said, all put together, not everything will be like-to-like, also 0.5 million to 4 million. You misunderstood. That is not profit share. That is the contribution on the same plus profit share.
- Rahul Picha:** On this spec chem segment, this quarter, our revenues were materially lower. So, any specific reason for that or it is also due to normal appeal in the business that we usually see?
- Venkat Jasti:** No-no, this is the requirement of the customer, but at the end of the year we say the same thing, it will remain the same as last year which is a more or less flat number. So we catch up with that whatever it is. Sometimes it goes and a couple of containers do not go even though they go, and they do not come into that sale, it will happen. But at the end of the year, you will have the same number as last year.
- Rahul Picha:** Lastly a small clarification on the ANDA again. So we had launched two ANDAs in H1 and after that in Q3 we have launched one more and in Q4 we are planning to launch another one, is that correct?
- Venkat Jasti:** Yes, yes.
- Rahul Picha:** The two that we are launching in H2 are they similar in size to the ones that we had launched in H1 or are they bigger?
- Venkat Jasti:** They are smaller size.
- Moderator:** The next question is from the line of Jeevan Patwa from Candyfloss Advisors.
- Jeevan Patwa:** I have two questions. So last time we announced that we are doing 600 crore CAPEX. So, will it be possible to share any breakup of this CAPEX how we are going to spend this?
- Venkat Jasti:** Yeah, it is on the drawing board, there is an enabling resolution on the board, that is what we announced last time. And as I said, this is a three-pronged effort; one is for the relocation of the R&D center which will take two to three years and the other one is the replacement block in Suryapet and then some balancing equipment and a small block in the Pashamylavaram. So our project schemes are working out. The amount is around Rs.600 crore, but we have not finalized how much goes to each activity. I think hopefully by the next conference call, we will have all the answers and we will be starting some activity in the first quarter of next year, not till that time.
- Jeevan Patwa:** Secondly, you have given a footnote in the Suven Life Sciences. Can you just guide how do you see the future in Suven Life, whether you are going to go for any outlicensing or you are going to go for listing the neurosciences, so what is the thought process there?
- Venkat Jasti:** First of all, to out license a particular product, you need to have a positive result, right. Narcolepsy trial is undergoing and because of COVID there has been a delay of 15-months so far and we hope to finish this trial by the end of calendar year 2021, that is one part. And we are also trying to see what indication we should go for the 502 because as the trial did not meet secondary end point. We are trying with USFDA some sessions-after-sessions to go for a new indication, we are almost finalizing that, we will be knowing that by May which most probably will go for agitation and

aggression trial which will again for three years and similarly we are going to go after the trial for the 4010 for another dementia study. These are all going on. With respect to the collaborations, we are always working on it, but success only will bring the collaboration. With respect to the IPO or something like that, if you know, that value-based IPO in India again positive success in the clinical trial. We are working with some customers, our strategic alignment, collaborations and all that stuff but nothing is finalized yet.

- Moderator:** The next question is from the line of Sarvesh Gupta from Maximal Capital.
- Sarvesh Gupta:** Sir, this pertains to the earlier question on the CAPEX plan. By when can we get the proper split of this Rs.600 crore announced CAPEX?
- Venkat Jasti:** By May.
- Sarvesh Gupta:** The other question was, sir, this year you said that you have around 15% to 20% revenue growth guidance. Any number that you would want to give, given the six months visibility that you have for the first half of next year?
- Venkat Jasti:** One quarter will not give the whole year guidance. I am holding that till the next conference call.
- Moderator:** The next question is from the line of Saravanan V. N. from Unifi Capital.
- Saravanan:** Now in the specialty chemical segment, we have two commercial contracts for intermediate supplies and last time you had mentioned that one or two more could be added by end of the year. Are we on schedule?
- Venkat Jasti:** Yeah, one is certainly will be added as early as first quarter of next year that is fiscal year '22. The other one is in the developmental stage and that will be sometime later in FY'22.
- Saravanan:** Similarly, pharma you said like one would go in the commercial in calendar year 2021. So you have any visibility, whether it will be in H1 of the calendar year or H2?
- Venkat Jasti:** Not yet, no indication was given, as of now it is unlikely to happen in H1, it will happen in H2.
- Saravanan:** Rising Pharma, they would have closed their annual results, right, I reckon they would follow the Jan to December calendar. So do you have any yearly update and what is the outlook for the next year from them?
- Venkat Jasti:** That you will be getting only at the consolidation only, but we are not going to give any figure with minority shareholders who are not running the details. But as you could see from the line items what we have clearly said it will do well, I think it will continue to do well.
- Saravanan:** Any other qualitative aspects you can say like a number of projects they are handling?
- Venkat Jasti:** No, I cannot tell. That is a private limited company.
- Saravanan:** Last year, we had Rs.48 crore of share of profits from them and nine months we have done Rs.35 crore. So you expect to surpass the last year number given the traction is good there?

- Venkat Jasti:** That we will know only when I get the profit share from them. As I said, I am not running that business, I do not look after day-to-day. Ours is a financial investment. We will know post-facto and we hope to achieve the same thing, at least get more out of it, but we do not know until it comes, so I cannot guarantee anything on that, it is not in my visibility.
- Saravanan:** Sir, on the projects front, it was a positive update that you are seeing sign of a new research project. So, that would ensure the growth for the FY'22 and FY'23. So, is this all-billable projects, right, or it is just in discussion stage?
- Venkat Jasti:** It is at discussion stage. See, discussions are mainly, what we only update is the things that will come into our developmental stage and then we will build in Q1 or Q2 or Q3 depending on the duration of the study and all that stuff. These are in the initial stages. As I said, things compared to the first two quarters now things are coming to the normal and we saw some new projects addition is being done. These new product addition is only that is saleable and what we talk about always, not the RFQ.
- Moderator:** The next question is from the line of Darshit Shah from Nirvana Capital.
- Darshit Shah:** Sir, my question is on a broader base if you could throw some light on that? In earlier calls as well as in the annual report, we had mentioned that we are planning to do a value migration from intermediates to API and that itself would be another 30%, 40% value addition in terms of what we are doing currently. So, what's the progress of that and in addition you mentioned you're already in talks with two innovator MNCs for some projects which might happen over a period of time, so sir is it part of a broader things which you are working on if you can share some light on that and is the 600 crore CAPEX also part of that overall plan of things, so we as investors would be delighted to hear your thoughts on that?
- Venkat Jasti:** It is the same as last quarter, things are going on well, the discussions are going on and since the travel restrictions are there, even though if they want to proceed further, they want to come and audit based on the API requirements by QA team, which is not happening. But this is the positive direction. Things are going on, sharing the documents and all that stuff. But the CAPEX is not necessarily for that. The CAPEX as I clearly said, 80% of the CAPEX is replacement of the old plant and relocation of the R&D. Only 20% of the Rs.600 crore CAPEX is kept for the financing and for additional small plant. So, it is not necessarily for the API. Right now, we have enough capability and the capacity. And there will be some balancing equipment based on the product and when the products start, we have enough time to put in place because we do not need a separate plant right now. Yes, it is there as of today, but we are going in the right direction, but it takes two to three years before you see any revenues based on that.
- Darshit Shah:** And sir, would it be fair to understand that if at all whenever this value migration happens from intermediates to APIs with whomsoever we are talking with, then obviously the scalability and volume front would be a little higher than what we are doing in intermediates because it is another 30%, 40% more valuation?
- Venkat Jasti:** Not necessarily, I mean, in the sense if you are doing intermediate quantity, but at the same time migrating the API, the requirement of API, in value terms it may be better, but sometimes the volume maybe less than what the intermediates require. So, you cannot start off with the volume straight. Value wise, yes, it can go up but not the volume wise.
- Darshit Shah:** Yeah, so sir my question was on the value front itself and that would eventually result in incremental sales growth of that?

- Venkat Jasti:** Naturally but that will be two years from now at least.
- Darshit Shah:** In terms of growth for the next year FY'22, we can expect that probably the growth will come from new projects which we are getting plus on the specialty chemical couple of molecules might go into commercialization as well as the pharma CDMO-1 molecule which might probably go into commercialization in H2 FY'22. Is my understanding correct?
- Venkat Jasti:** Yeah, it is a mix of each and every part of it. See, what happens, not everything keeps going, as I was telling last time, the specialty chemicals are of a static nature for Suven, because they are getting patent now. If it is generic, the volume may go down a couple of years from now, right now, next two years not a problem. The additions what we are getting is value wise, but not in terms of volumes because product is a volume-based product, similarly, yes, anything can happen, now suddenly a couple of molecules from phase-1 to phase-2 and a couple of molecules from phase-2 to phase-3, then suddenly there is a 30%, 40% growth can happen. But right now the visibility is not there. It is a mix of all these things that gives you the growth of 15% to 20%. I cannot pinpoint which one is giving now at this time.
- Moderator:** The next question is from the line of Gokul Maheshwari from Awriga Capital.
- Gokul Maheshwari:** For FY'22 what is the plans for launching the ANDAs and related to this, are these new launches having a better revenue potential than the ones which are launched where you've indicated \$2 million to \$4 million of revenue?
- Venkat Jasti:** These are all very-very small volume and value-based products, and it will not be more than the number what we are doing and maybe three to four to five can be launched during FY'22 and post, by FY'23 onward there is another product which we are working out, and if everything goes well, that will give us better revenue because it's 505(b)(2) kind of a stuff going in that direction. It is not like other pharma companies where you see a lot of volumes and are based on the approvals. The values that you could see is very small at this time and we are trying to grow that because there is a value accretion for us with the profit share that comes into the picture. And there are not many competitors also, that we do not have to worry about. But the value is less.
- Gokul Maheshwari:** With respect to the specialty business, would FY'22 would be better than FY'21 directionally?
- Venkat Jasti:** No, it is in the same range, not much, 5% to 10% growth if at all.
- Gokul Maheshwari:** Just a couple of points.one is on the plans to hire a COO when you were on the look-out for someone. Has there been any progress on that front?
- Venkat Jasti:** There is a progress and no progress. It depends. We are looking for somebody and they cannot relocate at this time because of COVID situation. So, we will be still looking for a COO.
- Gokul Maheshwari:** You mentioned in your opening comments on some logistic problems. Is that a hindrance for the short term where some of the projects would have got spilled over to the subsequent quarter?
- Venkat Jasti:** No. What is happening is sometimes we are getting the reports delayed and sometimes customer is getting delayed because the shortages of containers and all that stuff, not only the transportation has almost doubled in sea freight and almost 50% more in the air freight also. These are the little things which are affecting us.

But in general, I have noticed the customers and they are not getting any effect from it rather than a little bit cost from us.

Moderator: The next question is from the line of [Sanjaya Satapathy](#) from Ampersand Capital.

Sanjaya Satapathy: In the first two quarters, you had mentioned that because of travel restrictions you are not able to close new contracts and you just said that you managed to get new contracts basically to revise those process. So have you managed to kind of compensate for the time that you lost in the first half?

Venkat Jasti: How the results are showing up, it has no effect on the results. The project accumulation is not only for me, but everybody else. It is not the travel restriction that is not getting the new projects, it is the customer itself they are not going to their offices even now in Europe and America. They are working from home but have started moving because they have to prioritize budgets, except this one quarter we could get it. But we are not compensating for anything, as long as you are not losing your business on a day-to-day basis, then it is not compensational, it will come, and also it is not a guaranteed thing, not each project that comes in will stay forever because these are all the clinical trial-based projects, so how many comes into the next level we don't know. So things are moving well. As I said last time also, traction is better, and it is not that one or two quarters lost will stop us getting good growth.

Sanjaya Satapathy: My question is that a couple of molecules, etc., which you are talking about more of second half of FY'22 and FY'23. And you have always told us not to really look at quarter-on-quarter and since your current guidance is only for one more quarter this year. So, is it kind of sufficient to conclude that overall FY'22 and FY'23, this 15%, 20% kind of growth is something which it can continue despite all the hitches that we see?

Venkat Jasti: That is our wish and going by the past records that is what is happening, but at this time I do not have a crystal ball in front of me. There is no visibility other than for the one more quarter. Based on that one quarter we will not be able to give guidance for the whole one year. But as I said we will keep updating you as and when we get the better guidance. As of now we are sticking to this year's guidance and next year we hope to achieve 10% to 15% growth.

Moderator: The next question is from the line of Cyndrella Carvalho from Centrum Broking.

Cyndrella Carvalho: What are your key priorities now as things looking up and are better so how are you looking at things on a segment wise or overall perspective if you could enlighten us with some thoughts?

Venkat Jasti: We are optimistic but at the same time the optimism will not bring us the results. We are seeing much better traction but only the success of the molecules are the ones which are in the pipeline that will give us the results. But in general yeah, it is very optimistic because even though there is a COVID that did not really affect our growth so whatever growth we promised is coming our way but that will be delayed. The prioritization of the projects from the customers but those are a very small volume accretion in the beginning itself but in the long run they'll catch up and we are not worried about that part. In general, the industry is doing good and that will bode well for us to get more new projects, but finally the successor molecules in the clinical trials are that one that gives us the business. So we are quite optimistic.

Cyndrella Carvalho: Any other new technologies or platforms that you are thinking of bringing on board something on that side?

- Venkat Jasti:** First of all, unlike other companies I cannot do some platform technology unless the customers' needs that requirement. We are evaluating with the customers what is their new requirements will be, based on that we are trying to do. And one such thing is the continuous flow chemistry that's what we are trying to develop and hopefully we may be able to get ready for that activity sometime in the FY'22.
- Cyndrella Carvalho:** On the CAPEX nitty-gritties you will be able to update us from the next quarter?
- Venkat Jasti:** Yes, ma'am.
- Cyndrella Carvalho:** Just some clarity on the spec chem. Q4 will be more loaded with the spec chem quarter. Is that a correct understanding?
- Venkat Jasti:** Not necessarily but it will be more than the third quarter, yes.
- Moderator:** The next question is from the line of Abdul Puranwala from Anand Rathi.
- Abdul Puranwala:** On the Vizag plant, could you please update us with the progress and how soon can this plant be now commercialized?
- Venkat Jasti:** We're just doing the validation batches already and some revenue will accrue this quarter.
- Abdul Puranwala:** Now that we have declared dividend this quarter. So, any target payout we are going to do on an annual basis with the kind of cash flow we have?
- Venkat Jasti:** We are paying every year now. We never missed any dividend. We only pay more or less once in a year, that is all we do, right. We are also planning expenses, right, so it has to match that as well.
- Moderator:** The next question is from the line of Sachin Kasera from Swan Investments.
- Sachin Kasera:** If you could just update what is the current status on debt on the books and how much is now payable to Suven Life as of December 2020?
- Venkatraman Sunder:** Suven Life, what we are supposed to pay is about Rs.66 crore. Apart from that actually we have a debt of about Rs.104 crore of working capital term loans.
- Sachin Kasera:** What is the schedule of repaying this remaining money of Rs.66 crore to Suven Life Sciences?
- Venkat Jasti:** As and when it is needed, it may be in three months or it may be in six months. We can pay anytime, but what I am saying is based on the requirement we will pay.
- Sachin Kasera:** Secondly, is the existing ongoing CAPEX other than the Rs.600 crore which we have freshly announced, that is all over now sir or is there some ongoing CAPEX also?
- Venkat Jasti:** Earlier CAPEX of Rs.30-45 crore, will be done by the end of this quarter. The fresh CAPEX of Rs.600 crore will start doing in Q1FY22. We have a clarity on where, how much because we are getting all the quotations and requirements and all that stuff, and we finalize the budget by the April timeframe. So, I can give an update on that by May conference call.
- Sachin Kasera:** Can you just share how much we have spent on the CAPEX in the first nine months sir?

Venkatraman Sunder: So far, we have spent about Rs.94 crore, but we can update you on that (RS. 94.94 crores).

Moderator: The next question is from the line of Dipali Patadiya from Sameeksha Capital.

Dipali Patadiya: My question was on the project side. So I understand from the previous interactions that we are good in few chemistries like thiol chemistry and we are trying to get into other chemistries like Cytidine and continuous chemistry. So can you give a bit more understanding on what are the chemistries that we specialize in and what is truly market size of those chemistry?

Venkat Jasti: We practice each and every chemistry except for postulation and fluorination in CRAMS level to multi-ton level. It is a requirement of the customer that makes us practice the chemistry. So we don't have any problem with respect to the chemistry. We don't do the fluorination as I said and also the phosphination, other than that we do each and every chemistry. It maybe granular, it may be in the multi-town level.

Dipali Patadiya: Regarding the market size, do we have any numbers what market size of those particular chemistry? Overall, we see that for entry-base markets around \$20 billion for us. So, do we have such numbers for those chemistry?

Venkat Jasti: All the pharmaceutical markets other than biological is chemistry-based activity. It is what we get from the customers and what we deliver based on the success of the molecules in the clinical trials is what our kitty is. Just because there is a huge, millions and billions of dollars market, it does not mean that it is correlated to our business. Chemistry-based activities is huge, not only pharmaceutical, but also agrochemical and specialty chemicals and all that stuff put together. So you cannot correlate that way.

Moderator: The next question is from the line of Rahul Garg from Shifa Family Office.

Rahul Garg: My question is on CAPEX. Is it going to be a mix of debt and internal accruals or we are looking for other options? Number of clients or projects onboarded in Q3? Can we put a full stop on the rumor on stake sale in this call?

Venkat Jasti: You yourself said it is rumor. Why should I put a stop on that? Let rumor fly like that. This is going on for the last 15-months. I cannot keep on telling everyday this is a rumor and that is a rumor. Let us not worry about that part. As far as CAPEX is concerned, it is part cash coming in and part internal accruals, whenever it is required, otherwise maybe through internal accruals only. On number of clients onboard, it is not like IT where we are onboarding so many projects, we do not get that many customers quarter-on-quarter basis, the existing customers only gives the new business opportunity. In general, it will be one or two new customers but yes it will happen, but not quarter-on-quarter.

Rahul Garg: Do we have any presence in biologics chemistry that side of the world?

Venkat Jasti: We are not in the biologics.

Moderator: The next question is from the line of Charulata Gaidhani from Dalal & Broacha.

Charulata Gaidhani: If you could throw some light whether there are any one-off execution orders during this current quarter?

Venkat Jasti: There is no one-off.

Charulata Gaidhani: Second, in terms of order book movement how is the order book moving, are you seeing any slowdown because of the lockdown?

Venkat Jasti: As I was telling before, compared to the first and second quarters, it is moving better with the new projects acquisition and order book is good as of now, based on that only we are giving this guidance, but as you know our visibility is only for about six months.

Charulata Gaidhani: This type of EBITDA breakthrough of 50% I think would be the best in the industry. How frequently can you see this coming?

Venkat Jasti: I want to get it every quarter, but it may not happen, this is a product mix and sometimes it happens, we do not expect this to happen every quarter.

Charulata Gaidhani: Can you elaborate a little more on the product mix?

Venkat Jasti: When you make late stage material, the volume compared to the small volume, the cost will be reduced and the profit will grow and also the value with respect to the number of steps that are involved in the chemistries, that is what we are trying to tell you that is the product mix. So based on that also the value will come into the picture. There are many things combined. It is not one thing that led to this one, but it is mainly the product mix and the value proposition that brings based on the chemistries we have, the number of steps we do. What happens is I may have started this project to deliver after seven months or so. So, the value will accrue in this quarter and it will show you robust growth here but finally you have to say it is the product mix that used to these kinds of things because sometimes less value-added products will be there, more specialty chemicals will be there, so at the time the volume of the top line maybe better but on the bottom line there may be no growth, that's what it is. But at the end of the year, as we said, we will utilize 40%.

Charulata Gaidhani: Can you give some breakup of the projects?

Venkat Jasti: We stopped giving for eighteen months because it is not correlatable because the number of projects has no meaning, it is only for QC projects and it is difficult to give breakup on that project, that is why we are not giving or dispensing the number of projects.

Moderator: The next question is from the line of Purvi Shah from Kotak Securities.

Purvi Shah: One is a book-keeping question and the other is a broader one. So starting with the bookkeeping I would like to understand the cost of debt that we have? I understand you have said Rs.104 crore is the working capital and term loan. So at what cost is it?

Venkat Jasti: It will be around 5%.

Purvi Shah: Just the broader question that I would like to understand is in terms of COVID, we know that as a country we've been fairing quite well and we have not seen so far touchwood, but in the other countries specifically US and Europe region we've seen the second wave coming back and as I have been talking to other companies also they've been facing some issues of raw material which has led to increase in the raw material cost and the other was the logistic cost which has also spiked up. So, are we seeing this affecting us in the upcoming quarter or in the near term and how do you see these costs for us?

- Venkat Jasti:** The incremental cost is on the logistics and the raw material which we are now absorbing, but then we will request the customers to take some part of it and sharing the additional cost. Those are the things. That is what I was telling. There are some irritants but all in all, these things happen, there is no shortages as of today and like what we used to have and only some delays are happening which in collaboration with customers, planning properly so that they do not get disturbed or we don't get disturbed, things are otherwise going okay, there is slight maybe 3% to 4% additional costs are happening on numbers.
- Purvi Shah:** Last follow-up, as you said of course that 51% margins or something that you would like to have every quarter, in fact I would also like if it is consistent enough for the upcoming quarters as well, but what is the broader range that you feel that these are sustainable irrespective of the raw material spike and the logistics?
- Venkat Jasti:** It is not a sustainable thing, but I have given a guidance of around 40% on the EBITDA.
- Moderator:** The next question is from the line of Anshul Sehgal from Kotak PMS.
- Anshul Sehgal:** Sir, your formulations revenues for this quarter were about Rs.23 crore. How much was the contribution from Rising Pharma sales in this Rs.23 crore as also for the Rs.68 crore for the nine months?
- Venkat Jasti:** So, we are not giving customer-by-customer split and we are only giving you broader numbers, we are not giving the breakup from the sale price, break up of all the profit share, breakup of which customer and all that stuff is not possible, and we will not be giving that, and we are saying only these are the formulations revenues and it will go by 20% to 25% as of today.
- Anshul Sehgal:** Just qualitatively will it be a substantial number as a proportion of these revenues, sales to pricing?
- Venkat Jasti:** No, it is not substantial, it's normal only. Whatever guidance is based on the existing sales. So we are giving you guidance of 20% to 25% growth for the next one or two years.
- Anshul Sehgal:** Secondly, the CAPEX that we are doing, Rs.600, 650 crore, in this are we looking to move from say development batches towards more mass API manufacturing or will there be a component of that in this CAPEX?
- Venkat Jasti:** 80% is the allocation, rebuilding of one of the old blocks, only 20% is going for the balancing equipment component, some new small block, it is only the relocation of R&D center and replacement of the 25-year-old block in Suryapet, those are the main cost drivers, the other Rs.100, 120 crore would be for a small block in the Pashamylavaram. So the budget estimates we will finalize after getting all the quotes and all those things by first quarter and we have this timeline and all, it will take two to three years for all this, it is not going to be in one year, we will give you the update in the May conference call.
- Anshul Sehgal:** My only question was that since you are saying that most of it will be replacement of existing assets, will it include any incremental business from these assets, or will it be just the same business that you're doing just now, and it will only be upgradation of assets?
- Venkat Jasti:** It is only upgradation of assets.

- Moderator:** The next question is from the line of Akshay Sam from Atman Capital.
- Akshay Sam:** I just had a couple of questions. As you may know a lot of these new novel drugs, the market share of biologics is slowly increasing. Do we have any plans say in the future to acquire or venture towards such capabilities because a lot of our competitors such as Laurus and Syngene possess this capability?
- Venkat Jasti:** As of now no sir.
- Akshay Sam:** Secondly, do we only cater to big pharma companies or do we also cater to a lot of these smaller asset like nimble pharma companies, if yes, roughly what would be the contribution from both of them?
- Venkat Jasti:** We only deal 90% with big pharma, virtual companies, and the small booty companies only from 15% to 20% with the main customers because this innovation-led growth comes from the activity, it comes from the big pharma, not the small ones.
- Moderator:** The next question is from the line of Rohan Advant from Multi-Act.
- Rohan Advant:** Sir, just one broad question; if I look at the history of our CRAMS business it has been a very lumpy business year-on-year and especially in years where the commercial contribution has been very high, the next year on that base to grow has been very difficult. But if you look at the past two years FY'20, we've done really well, FY'21 on that high base we have done well. So I wanted to understand what is the underlying change that has happened if at all, is it that more molecules are moving from phase-1 to phase-2, is it that the commitment from the sponsor is higher versus what it used to be or is it that we are having more projects in phase-1 or more commercialization. So, while I do not need the number of projects, what has caused the sustainability of growth rate even from high base and the outlook for that?
- Venkat Jasti:** All these put together, we can say the answer, but at the same time four, five years ago we did not have commercial products, only the mix and match of phase-1s, 2s and 3s. So there is no guarantee that it will generate some revenue. Even for the commercial we will not give you year-on-year revenue, maybe 18-months timeframe or 24 months' timeframe. So base loading has happened with the commercial things coming in the picture and this mix and match is adding to that one. So, that is why you see sustainability at this time. As the number of molecules now into the commercial, and the base loading effect will come in the picture and this mix and match added to that, then a little bit more sustainable and more projectable, things will happen. So this is the nature of the business. It is only to start and when it starts the accumulation takes place with respect to the commercial project, even though it may not give you year-on-year, but certainly something will come, but in the phase-1, 2, 3 if you go to the next level there is no revenue equation after that, but with the commercials it will happen. So you see there is a difference between three, four years ago compared to the last two years.
- Rohan Advant:** So some or the other commercial molecule will cross that 18-month barrier every year and so there will be some sustainability, that is what you are saying, right?
- Venkat Jasti:** That's right.
- Moderator:** The next question is from the line of Ankush Agrawal from Stallion Asset.
- Ankush Agrawal:** Firstly, on the Rising business, one of the thoughts on investing in Rising was that we will have the first right of refusal on the future development towards the pricing undertakes, and you were expecting that you will get two, three projects every year.

So, if you can help me understand like how are things looking on that business perspective?

Venkat Jasti: There is no first right of refusal, that is wrong thing to assume, we said we have the opportunity to wait for some of those things which fits into our capability, that is what it is.

Ankush Agrawal: On the projects that you are expecting every year to flow from Rising, are there any developments on that front?

Venkat Jasti: Yeah, it will be from everybody but not alone from Rising, we have five, six customers and it will be a mix and match for the other customers also. Right now we have three projects from Rising, that is long-term.

Ankush Agrawal: Secondly, in terms of like a medium to long term perspective from the five years since we are doing a lot of things in terms of doing the life cycle management for few global innovators medium to long term and also that we are pushing our ANDA, this formulations business, where do you see like for the five years from now on the business how much would be pharma business, how much would be the formulations and all that?

Venkat Jasti: We never give these five months to six months projections, but as you said, these things we are only learning in this new business of the ANDA. So, I cannot predict how much it will be but right now for the next one or two years will be based on the existing things, 20% growth minimum, that is what we expect.

Moderator: The next question is from the line of MS Rajasekhar, individual investor.

MS Rajasekhar: I just want to understand what is your future vision for Suven Pharma, where do you want to take the company in about four to five years' time, I just need a qualitative answer, not a quantitative answer?

Venkat Jasti: We make one step at a time. We have all the ideas what should be and all that stuff, but at the same time, it is not possible unless you are a generic minded, then I can say I want to achieve Rs.1,000 crore or Rs. 10,000 crore or whatever it maybe but when it comes to the innovation-led growth, we want to enhance from the intermediate to the product innovator to the APIs, in the innovation side of supply chain and of course it all depends on the success of the molecules and the clinical trial. So we take one step at a time, but I cannot leap forward into the five years from now. But I have hopes of doing so many things but to achieve that it has to be a collaborative effort and that is where we are trying to align with the innovators and thanks for collaborating with us over the last 10 years and staying with us.

MS Rajasekhar: Definitely we are going into APIs, correct in future?

Venkat Jasti: Yeah, I mean innovative APIs, that is what our intent is.

Moderator: The next question is from the line of V Nityan, individual investor.

V Nityan: Just to get a few insights, one is a follow-up question of what the previous person had said. your journey has been a long one with a 1.5 billion market capitalization after two decades. What is next basically? Are you satisfied with this particular set of achievements or what are you trying to achieve more now and how do you plan to do it?

- Venkat Jasti:** See, the thing is you will never be satisfied, even after making so much money in the market whatever it is, you will not be satisfied, right, this what it is and what we have to achieve. There is no change as I was telling the customer, we are not going to leave for different things and we are doing things which is good for the business, good for the customers, and the collaborative efforts and also finally the success of the molecules in the clinical trials will be our success and we cannot give a long-term projection, but that's what it is.
- V Nityan:** Second question regarding Suven Neurosciences which was supposed to like you are exploring the possibility of an IPO in the US, the fastest way nowadays I believe is the special purpose acquisition companies which are now in the limelight in the US and the fastest way for any company to get into the US market or the NASDAQ or Dow is the spac companies, are we also exploring such a possibility?
- Venkat Jasti:** Suven Neurosciences is US entity only; it is a wholly-owned subsidiary of Life Sciences. We are working with various options and it will take time because as I was telling the other callers that success of the molecules will give you the value addition, either the IPO or the collaboration or something like that. So, we are right now achieving that success. The success will come only after that. The COVID delayed us by 15-months and hopefully things will go in the right direction in the next few months. We are working on the various opportunities; nothing is final yet.
- Moderator:** The next question is from the line of Mayur Damani, individual investor.
- Mayur Damani:** My first question is related to Suven Life Sciences. In the last conference call you had mentioned that we have sufficient cash to manage the show around the nine months to 12 months. So what is the current situation of that means I just want to know so that maybe we can expect something after nine months?
- Venkat Jasti:** See at a time things were slow based on the COVID. For the next activity to take place, still we are working out various options how to fund that one and we have not finalized as I was telling the customer, neither an IPO, nor what you call the asset-based collaboration or pipeline-based collaboration, all the things are going on well, but nothing has been finalized yet.
- Mayur Damani:** My next question is generally with respect to succession planning at the senior management level, this is further to the previous questions, I have been with Suven family for the last 10-years and I intend to be so for the next 10-years as well, but I just want to know any induction of any professional management from outside, though I'm very confident on Dr. Jerry Jeyasingh, Dr. Mishra, Dr. Srivari and others, Mr. Jasti's support and guidance will always be there, but if I intend to hold the Suven group for the next 10 years also, any sort of succession planning in place?
- Venkat Jasti:** Yeah, we're working out various options, mainly the professionalizing this thing and getting a professional for this kind of a company is a very difficult proposition, but we are working on the direction, also we are working with the family-based succession for the second level of operations, that is also going on, with the training going on in years, things are okay, right now it's not a need at this time, but we are looking for a proper person, rather than jumping just for the sake of jumping into it.
- Moderator:** The next question is from the line of Vineet Gala from Monarch Network Capital.
- Vineet Gala:** Sir. my question is related to Rising Pharma Holdings investment that we have. And related to the previous participant's question on us not having the first right of refusal. So what I understand is that we ourselves gave statement that we had the first right of refusal in Q4 FY'20 concall. So wanted some more clarity on the arrangement we have with Rising sir?

- Venkat Jasti:** Right of refusal has a different meaning and first opportunity has a different meaning. Also you need to say not all the products we can develop and manufacture. Whatever that gets into our capability that only we would ask them. It is not a first right of refusal. You used the word, it is wrong, it is a first opportunity to bid for it.
- Vineet Gala:** So sir, my understanding was from the comments we made during the previous conference call is that most of the opportunities would come to our table and we would pass it on. So, is the arrangement like that?
- Venkat Jasti:** Not most of the opportunities. I said, whatever that fits into our capability, not everything will fit into our capability, right, the sterile thing does not fit into our capability and also the number of projects is developed is out of that kitty only, but not everything that they marketed because they have so many other customers also. As I said we have the opportunity to bid for it.
- Vineet Gala:** If we are strong in certain capabilities, so in that case we get any kind of say like an upper hand vis-à-vis the other competitors who are bidding for the same product?
- Venkat Jasti:** There's nothing like an upper hand. It should be on the same level. Why should Rising Pharma give us an opportunity when we are getting a better deal with some other customers? We have a bid opportunity. Only the opportunity to bid is there and they will give you preference if you are in the same range.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.
- Venkat Jasti:** Thank you all again for tuning in for this conference call of the earnings and as I was telling you in the beginning that things have worked well even with the COVID situation barring some problems in the logistics and some cost escalation. Whatever gap we had for the first six months we could fill in this quarter and we hope to achieve the 15-20% growth as promised in earlier calls for the whole year and thanks again for tuning in and we will talk to you sometime in May.
- Moderator:** Ladies and gentlemen, on behalf of Suven Pharmaceuticals Limited, that concludes this conference. Thank you for joining us.
- Please note:** We have edited the language, made minor corrections, without changing much of the content, wherever appropriate, to bring better clarity.