CSD/BSE&NSE/CC/2023-24
February 09, 2024

To
The Manager
Department of Corporate Services
BSE Limited
25th Floor, P. J. Towers,
Dalal Street, Mumbai - 400 001

Scrip Code: 543064

To
The Manager
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex
Bandra (E), Mumbai – 400 051

Scrip Symbol: SUVENPHAR

Dear Sir/Madam,

Sub: Transcript of the earnings conference call for the quarter and nine months ended December 31, 2023

Pursuant to Regulation 30 read with Para A of Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call for the quarter and nine months ended December 31, 2023 conducted after the meeting of Board of Directors held on February 05, 2024.

The above information has been uploaded on the Company's website at https://suvenpharm.com/financial-info/

This is for your information and record.

Thanking You,
Yours faithfully,
For **Suven Pharmaceuticals Limited**

HANUMANTHA RAO KOKKONDA
Digitally signed by HANUMANTHA RAO KOKKONDA
Date: 2024.02.09 13:36:43 +05'30'

K. Hanumantha Rao
Company Secretary

Encl: as above

Suven Pharmaceuticals Limited

Q3 & 9MFY24 Earnings Conference Call Transcript
February 05, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Q3 & 9MFY24 Earnings Conference Call of Suven Pharmaceuticals Limited.

Before we begin, I would like to state that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in the results presentation that was sent to you earlier.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded.

I now hand the conference over to Ms. Cyndrella Carvalho, Head – Investor Relations from Suven Pharmaceuticals Limited. Thank you. Over to you, ma'am.

Cyndrella Carvalho: Good evening everyone, and a warm welcome to you all on Suven Pharma's Q3 & 9MFY24 Earnings Call.

Let me introduce you to our management team present here with us today, we have our Executive Chairman – Mr. Annaswamy Vaidheesh; our Managing Director – Dr. Prasada Raju; our CEO – Dr. Sudhir Singh; our new CFO – Mr. Himanshu Agarwal.

Our Management Team will delve into industry dynamics, strategy and operational highlights for Q3 & 9MFY24. Following that, our CFO – Mr. Himanshu will provide in-depth insights into our financial performance. Later, we'll open the call for Q&A.

Let us proceed with the opening remarks from our Executive Chairman – Mr. Vaidheesh.

A. Vaidheesh: Thank you, Cyndrella. Good evening, everyone. We extend a warm welcome to all of you on our Q3 & 9MFY24 Earnings Conference Call.

To start with at a macro level, our Q3 results were in line as expected. As indicated in the previous quarter, near-term macro challenges persist due to industry-wide inventory destocking in specialty chemicals and impact on growth due to COVID supplies in the base for pharma CDMO. This is likely to keep our next few quarters performance soft. However, we remain very confident of our mid-term. We have focused on fostering customer relationships, optimizing operations and strategically positioning ourselves for long-term growth. We continue to have engaging conversation with our existing and potential customers on the early and late commercial projects. The current RFQs pipeline sustains a higher pace and we are witnessing traction in the RFQs conversions. We are striving toward business opportunities in the medium-term.

As you are aware that we have also announced our ESOP scheme, reinforcing our commitment to employee benefits and talent retention, the resolution is ongoing. ESOPs are intended to not only foster sense of ownership and motivation, but also aligns directly with our growth objectives, creating dynamic environment. By linking employee interest with Suven's pharma growth, we aim to deliver value to both our employees and shareholders. On a mid-term, we continue to be optimistic and all our energies are driven behind what we think is a good growth opportunity in the mid-term and long-term.

So, with that, I'll hand it over to our CEO, Dr. Sudhir Singh.

Dr. Sudhir Singh: Thank you, Vaidheesh. Welcome everyone on this Earning Call.

As Vaidheesh mentioned in his speech, RFQ pipeline and conversion are progressing well as we strive towards medium-term business opportunities. Our focus lies on prioritizing strategic customer relationship, operational optimization and fostering long-term growth. The ongoing progress of our R&D lab and Suryapet expansion, operational capacity expansion is consistent with our effort towards 7%-plus growth trajectory. Our business development team position us for continued success in strategic growth opportunities as several discussions on early and late distress project engagements are ongoing. Despite near-term softness, our confidence remains strong in achieving medium-term growth.

Now, I would request our Managing Director, Dr. Prasada Raju to open his remarks.

Dr. Prasada Raju: Thank you Sudhir, and our Chairman – Annaswamy Vaidheesh. A very good evening to all of you and warm welcome to your company's earnings call.

Our priorities for the coming year include the persistent engagement with customers, building our respective teams, ongoing investment in infrastructure for EHS and ESG as a part of our strengthening our business fundamentals, consistent cost improvement and strategic investments in technology and capability building is an important priority. Apart from this, we are also focusing on extensive M&A pipeline.

Near-term macro challenges persist due to industrywide inventory destocking in specialty chemicals and impact of COVID supplies in the base. This is likely to keep our next few quarters performance soft. However, we remain confident about our medium-term.

We are pleased to welcome Mr. Himanshu Agarwal as our new CFO, bringing with him an impressive career spanning over 28-years. He has previously held key roles at Bennett & Coleman, Huhtamaki, Akzo Nobel India, AstraZeneca and ICI India.

I will now invite our CFO, Himanshu, to share the financial insights. Thank you.

Himanshu Agarwal: Thank you, Dr. Prasada, and thanks to the management team for welcoming me in the Suven's family.

At the outset, I would like to express my gratitude to Mr. Sunder and Mr. Subba Rao for their significant contributions to Suven’s success.

Moving to the results, I think as expected and as informed earlier, we are at Suven adjusting to a global destocking in the spec chem business, as well as to the COVID molecule base effect. I think it has been communicated earlier, our nature of the business is such that a quarter-to-quarter performance is not really reflected of the true business performance. Our business performance is much better understood and reflected through the YTD numbers. Therefore, I will first cover the nine months of FY24. In the nine months of FY24, our revenue from operation was at Rs.798 crore, reflecting a decline of 18%. However, as mentioned by Dr. Sudhir, the spec chem business is down due to global destocking and we still have COVID molecules last year base effect. If we were to exclude these two elements from our base, then the underlying business revenue is at a growth of 35%. And the pharma CDMO business, excluding the COVID molecule, has grown at around 2%. {*stands corrected as 24%*}

Despite the softness in the revenue due to macro headwinds, our adjusted EBITDA is at Rs.348 crore, which is at a very healthy EBITDA margin of 44%, and ahead of last year, adjusted EBITDA margins of 41%

Similarly, the business adjusted PAT at Rs.257 crore is at a margin of 32%, which is well ahead of last year's adjusted PAT margin of 29%.

As Dr. Sudhir said, our capacity expansion at Suryapet is going well. We had committed Rs.200 crore on Suryapet and we progress in that right direction on that.

And similarly, we have, as mentioned earlier allotted a CAPEX of around Rs.30 to 40 crore in our new R&D facility, which continues in progress, in line with our plans.

As mentioned earlier, the quarter-to-quarter do not reflect the true nature of our business. Nevertheless, I will still cover the Q3 financials as reported. As you would notice in the press release, our Q3 reflects the costs associated with the new hires and the ongoing implementation of new systems and processes in the results. Our revenue from operations is Rs.220 crore, which has declined 38%, while overall growth has been impacted by spec chem destocking and base effect of COVID molecule. Excluding these two elements, the revenue grows at around 2%. {*stands corrected as 3%*}

The adjusted EBITDA is in line with previous year EBITDA; EBITDA margins is around 36% versus the last year EBITDA margin at 38%. Similarly, the PAT at Rs.57 crore comes with the margin at 26%, in line with the last year margins of 28%.

Now, I would request Mr. Vaidheesh if you could give us a summary.

A. Vaidheesh: Thank you, Himanshu. So we anticipate that the near-term macro challenges will persist due to industrywide destocking which I've mentioned it in the beginning itself. And this is likely to keep our next few quarters performance soft. But as I mentioned, we remain confident of our mid-term.

In summary, our transition to new management is complete. And we have strengthened our senior leadership. And despite short-term challenges, our focus on customer engagement, strategic initiatives and medium-term to long-term macro tailwinds, remains unwaveringly strong.

And with this, we thank you for your time and open the floor for Q&A. Thank you.

Moderator: We will now begin the question-and-answer session.

The first question is from the line of Gokul Maheshwari from Awriga Capital Advisors.

Gokul Maheshwari: I just wanted to check what was the revenues from the COVID molecule in the same quarter last year which you are referring to as a high base?

Himanshu Agarwal: Gokul, what's important is that what we've highlighted that our business excluding the COVID molecule in nine months is at +2% {*correction:+24%*}. I mean, unfortunately, we would not be in a position to give an individual molecule-by-molecule level information.

Gokul Maheshwari: The previous management had indicated that the COVID revenues in year FY22 was Rs.120 crore. So, this was a bit of a surprise that in FY23 there was no COVID revenues as such. So, are you saying that there are no revenues in the Q3 FY23 for COVID because you are referring to the nine months number as a year-to-date figure?

Himanshu Agarwal: Which is correct. Q3FY23 did not have a COVID revenue number. {*Correction: Q3FY23 has Covid revenue number}*

Gokul Maheshwari: So, in that case, the pharma CDMO business has seen a 33% drop in this particular quarter. Is there any particular reason why there is such a sharp drop in this particular quarter in this business?

Himanshu Agarwal: No, no, I don't think so. I have given you any number in terms of a pharma CDMO drop. I think what's relevant is, we have very categorically said that this business is not representative from a quarter-to-quarter perspective. We will have to look at this business from a YTD perspective, because otherwise the business will not give a sense. And see, that's very important for us to understand that we have to look at this business from a YTD perspective rather than quarter-on-quarter perspective.

Gokul Maheshwari: The second question is on the Cohance merger. You mentioned in your annual report that there is a plan to merge or something. Could you give an update on what is the strategy on that front and what's the progress?

Himanshu Agarwal: So, see, from a board perspective, we have passed a resolution for evaluation. And we are in the process of evaluating that merger. We will update you once we have more understanding.

Moderator: The next question is from the line of Darshit Shah from Nirvana Capital.

Darshit Shah: Just wanted to know a few quarters back, there were around five molecules in phase-III trials. So, would the new management be able to tell us how many molecules are currently in phase-III & ongoing?

Dr. Prasada Raju: As of now, we don't have any new update at the moment. As you understand, it's long-term in nature and quarter-on-quarter significant movement cannot happen and still they are at the same stage.

Darshit Shah: Earlier, we used to get details on the number of projects we are currently ongoing and the phase-wise details. So, would the new management be kind of able to provide those in the presentation now so that we get an idea of how many projects we've added, which are the projects & in what phases they are in, your thoughts on that?

Dr. Prasada Raju: Just to let you know, as you understand the kind of innovative customer that we deal with, we are abide by certain NDAs and we prefer not to dwell on to their pipeline status and you should have to kindly bear with us. We would not be able to dwell deeper into it.

Darshit Shah: We are seeing that given the global situation starting right now, we expect the next few quarters to be soft. So when we expect normal growth kind of to return to the business, providing that none of the phase-III molecules kind of go into commercial in the next few quarters?

Dr. Prasada Raju: Darshit, currently, we still are watching to understand how the bottom out of entire decline happens. We feel we might be at a middle of the cycle unless we clearly get a sense of whether it is completely bottomed out or not, we will not be able to really tell you how much time it will take for recovery.

Darshit Shah: Can you help us understand what this adjusted EBITDA, I mean, the old inventory provision that you have kind of provided in the recent presentation?

Himanshu Agarwal: So, as you would notice, I think we have in the press release mentioned that the old inventory provision has been adjusted for around Rs. 134million, so which is Rs. 13.4 crore. So, that's the number that has been provided for as a one-time provision.

Darshit Shah: So, this is just for this one-time for this quarter itself or it will be a recurring thing now, henceforth in our kind of presentation and press releases?

Himanshu Agarwal: As I said, this is one-time provision for the old inventory that we have assessed at this stage.

Moderator: The next question is from the line of Mayur Parkeria from Wealth Managers India Private Limited.

Mayur Parkeria: I just had one question and I understand that this is a qualitative remark, and you may not, but just to understand, there has been a reasonably long period of consolidation which we have been looking for as a company also. So, if you can give some perspective about what do you mean when you say that the near-term is challenging, but in the medium-term, long-term you are there, so does the medium-term mean one-year plus or is it a longish period than the medium-term or less?

Dr. Prasada Raju: Mayur, just to give you a perspective. There are two important challenges are happening. One is on the specialty chemical side, which is definitely cyclical phenomenon is happening on the destocking of the situation.

Mayur Parkeria: Sorry, I should have clarified in the question. I mean, ex of agrochem, how do you see that? Pharma is also only 2% kind of growth. So ex of that, how do you see?

Dr. Prasada Raju: Pharma CDMO has multiple challenges to address. One is definitely as you understand we have to depend on the customers growth and customers will eventually depend on the clinical success of the molecule. #2, we also look at some of the stock and inventory optimization levels. So, these are the two important phenomenon. It's very hard for us to really predict when a phase-III molecule can be ready for a readout and followed by the NDA filing and approval. Hence, we stay relevant to our customers and wait for them to have a successful clinical closure which normally takes anywhere between 1.5 to 2-years' time. That's how we are not able to exactly define what would be the terrain at which the success comes.

Mayur Parkeria: So, at a broad level you are still not in a position to give us any indication about what does that medium-term mean and how many quarters we still go through the selling side, is that right?

Dr. Prasada Raju: Yes. From a pharma CDMO on a YTD basis, 24% is the number, I think it's not 2%, just wanted to clarify.

Mayur Parkeria: Just one clarification. Sorry, I misunderstood. There was a question that in Q3 of FY23, there was no COVID molecule, right?

Himanshu Agarwal: No, no. I think there is a clarification. Q3 of previous year has a COVID molecule. It is there in the base of the COVID molecule.

Mayur Parkeria: That is what I was coming, because your reference just went a little high, that is why I got confused. Correct. So Q3 FY23 had?

Himanshu Agarwal: Yes, yes.

Mayur Parkeria: We have been trying to move the business I mean apart from the CDMO and agro-chem, we have been trying to enter into the API chain also and there was a more integrated kind of play for us. Where are we in the discussion stage with the client or is it still there or is it only going to be mainly after the merger happens? How do we see that aspect of business playing out over the next one year?

Dr. Prasada Raju: Currently, Mayur, there is one active project for graduation from a registered starting material to API by one of the innovative companies. Project is still active, but as you understand, it has to follow through certain procedures including quality checks and a customer visit to the facilities, which is active, but we cannot exactly decide by when it will be over, and it will be converted into commercial. Second part of your question is you are also referring to, can we convert that into formulation and be a forward integration? We don't expect even the mid-term also that is going to happen because we as a country don't have a precedence of providing formulated product to innovative companies. I hope it clarifies your question.

Moderator: The next question is from the line of Ashish Soni from Arch Finance Ltd. .

Ashish Soni: In the opening remarks, you spoke about some M&A activity and some RFQ discussions. Can you throw some better light on it, just want to understand in detail what are our thoughts there?

Dr. Prasada Raju: There are two parts you mentioned. One is on the M&A side, as you understand, we have surplus cash on the balance sheet. As a part of our overall growth strategy, we're also evaluating potential possibilities of inorganic ways to expand and accelerate our growth aspirations. Currently, we are actively pursuing and looking for a few technology platforms which can differentiate ourselves from the existing crowd and also stay very relevant to our existing customers. That activity is happening right now.

Ashish Soni: And what about this RFQ? Like you said that RFQ pipeline is increasing, so, when do you see some impacts over revenues maybe six months, 12 months, can you throw some light on that as well?

Dr. Prasada Raju: As you understand, RFQs definitely, we have seen improved inflow, but as you understand it takes time for RFQ conversion by the customers also. We expect in the next one, two quarters, some of the results should come in, it will not take more long either way whether we win or we lose, we will get to know in next one, two quarters time. That's a common cycle that we follow.

Ashish Soni: And on M&A, when you said you're exploring for inorganic opportunities, so do you see something closing in next one year?

Dr. Prasada Raju: That is the aspiration that we have, but we would not be able to create any speculation at this stage unless we are clear, but definitely there is a healthy pipeline of M&A opportunities that we are pursuing right now. Appropriately, we'll come back to all of you.

Ashish Soni: We have built a lot of capabilities and capacities upgradation in the last few years. When do you think, we can optimally utilize to our strategic perspective in next two, three years capacities what we have built or upgraded?

Dr. Prasada Raju: So again, this is an ongoing exercise of current capacity utilization in the case of various units of Suven that we have. More importantly, Suryapet new capacity expansion has been one more addition to us. In the next two years' time, we should be able to really bring this capacity to an optimal level. That's our internal endeavor. Today, we have enough capacity available.

Moderator: The next question is a follow up from the line of Darshit Shah from Nirvana Capital.

Darshit Shah: Just on the M&A side, we understand we have Rs.1,000 crore roughly around that amount with us. So when you're talking about newer technologies and platforms that we're looking at, so this is over and above the board consent that you've probably got to kind of merge Cohance also. So this is over and above what we are planning to probably looking at Cohance and other relevant technology and platforms also, is that understanding correct?

Dr. Prasada Raju: Currently, we are looking for whatever the M&A opportunity which can be more meaningful and strategic for driving the Suven growth is our top priority right now. Hence, your understanding is correct.

Darshit Shah: You've been talking about a five-year vision for the company. So when can we expect something to be out in the presentation for the investors?

Dr. Prasada Raju: Currently, it is at a draft stage. As you understand in the last quarter call, we were mentioning it is work-in progress, but definitely, our teams have kept a lot of effort and we have reached to a draft stage. We are contemplating how can we really convert that into a final blueprint? Sometime towards the closure of the year, probably we can come back with some specific outcomes of the overall blueprint. Otherwise, we are at an advanced stage of closing it.

Moderator: The next question is a follow up from the line of Ashish Soni from Arch Finance Ltd.

Ashish Soni: Talking about near-term weakness, so, what's your CAPEX plan, are we putting that on hold, or we want to continue with that, if you can throw light on that for next one or two years?

Dr. Prasada Raju: Ashish, as you heard us consistently, today, our endeavor is to deepen our existing relationship with customers and fill up the current capacity which is relatively sub-optimally used right now, then appropriately plan for the CAPEX. That's how we are looking for right now, which means your understanding is very correct. Mid-term, we try to decide based on our overall strategic options in which assets that we have to have a CAPEX allocation.

Ashish Soni: But any guideline on maintenance CAPEX which definitely be required in like next one year or two years?

Dr. Prasada Raju: So normally to maintain our facilities, we continue to have the CAPEX which historically we have been spending, the same amount will go. I'm talking about more of a growth CAPEX. We will wait till we reach to a certain stage of optimal usage of capacities.

Ashish Soni: When you say optimal, is it like 50% sort of a thing or lower than that?

Dr. Prasada Raju: Normally above 50% is the right trigger point. As you understand, the CAPEX has two components; one is building a civil structure, second one is equipment installation and qualification. Infrastructure of civil takes long time. Hence, our trigger point is to keep the infrastructure of civil first, then wait for the product level mapping and a customer level mapping comes into a play. So, we decide after 1.5-to-2 years, once we reached 50% of the capacity, we start building a civil structure. Again in our business, our 80% is 100% of utilization because we do not want to run with more than 80% of the capacity occupancy because we will lose the flexibility to the customers. That's how we look at the CAPEX decisions.

Ashish Soni: This M&A, are you planning in India or outside of India?

Dr. Prasada Raju: Currently, at least first few assets we are hoping to have it in India right now. But again we'll come back with specific answers as Darshit was also asking, you should allow us for some time. There is a healthy pipeline. We'll get back with specific answer soon.

Moderator: The next question is a follow up from the line of Gokul Maheshwari from Awriga Capital Advisors.

Gokul Maheshwari: Sorry to harp on the COVID thing. I'm just referring to your page #24 of the annual report where you had mentioned that and I quote, "The growth seems to be subdued owing to the one-off revenue from the COVID-related projects in FY22 which was absent in FY23." If we take these numbers out, the growth of the numbers aligned with your growth business estimate, so I'm just a bit curious and confused in terms of what base are you referring in terms of COVID molecule revenues for FY23?

Himanshu Agarwal: So, Gokul, let's take this offline because I have not had the opportunity to look at what you're looking at.

Gokul Maheshwari: Yes, I am happy to take this offline.

Himanshu Agarwal: Sure.

Moderator: The next question is a follow up from the line of Mayur Parkeria from Wealth Managers India Private Limited.

Mayur Parkeria: Just a follow up on the last one because again it has cropped up, we would request you to kindly issue a press release if there is any change in the understanding we have, it will help all of us because in terms of overall disclosure also, so if there is any change in the requirement, request you to kindly release the press release which will help us. I was referring to the last question with respect to the COVID drug base, there is some confusion. So instead of having only one analyst as offline, request you to issue a press release if there is any change in your current requirements if any.

Dr. Prasada Raju: It's a more of a clarification. It doesn't have any materiality. However, we take your point. We'll ensure that there is no information as I mentioned.

Mayur Parkeria: So the question actually I had on the generic and the formulation side. There has been some uptick which we are seeing after again quite a long period of that opportunity not being and our tie-up or understanding with Rising Pharma, which was there, so how should we look at that segment from two perspectives, one is we going to now see a sustained growth coming up? And secondly, in the initial phases, are the margins on that a little back ended as the minimum sale and when it circulates down to the bottom line later phase or is it more evenly spread as we go ahead overall in terms of segments, if you can give us some understanding of how we see that in the next one year or so as far as this formulation concerns?

Dr. Prasada Raju: So, I'll try to divide this question into multiple places. One is definitely the extent of commercialization of some of the filings which have happened in the past, we see progress happening right now, and as we speak even last quarter, which is Q3 ending December of 2023, we had three ANDAs approved related to two products, and we also seem to have the commercialization also of the molecules happening. And the way we look at here, last year it was Casper asset is actually making a loss, and this year we expect loss can be minimized and next year definitely based on the extent of commercialization of this approved ANDAs definitely loss making to a profit making will always happen. #2, in terms of the margin, it always follows the revenue and in some cases there is an extent of composition of profit share happens in the business. On an approval basis, it also gets recognized. However, this a continuous ongoing activity. Obviously, it will recur going forward. These are all the two points I hope it answers your question.

Mayur Parkeria: So, the current set of molecules which have gone into commercialization are more evenly spread on margins or on our profit share, currently which we are seeing an uptick?

Dr. Prasada Raju: Difficult to share that right now, but definitely the composition of molecule comes with both, hence, margin also will be evenly spread. That's what I'm trying to say.

Moderator: Ladies and gentlemen. I would now like to hand the conference over to Ms. Cyndrella Carvalho for closing comments. Over to you ma'am.

Cyndrella Carvalho: Thank you participants for your time. Any questions unanswered, please reach out to the Investor Relations or CDR, India at your convenience. Thank you so much.

Please note: ***There were unintended inaccuracies in some of the comments/ responses. The corrected comments/ responses have been suitably included in this transcript in parentheses where necessary. Aside from this the language has been edited so as to bring in enhanced clarity.***