CSD/BSE&NSE/CC/2023-24
March 11, 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 conference call

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 conference call held on 05th March 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: 2024.03.11 13:31:10 +05'30'

K. Hanumantha Rao
Company Secretary

Encl: as above

Suven Pharmaceuticals Limited
Proposed Merger Conference Call
March 05, 2024

Moderator: Ladies and gentlemen, welcome to the call to discuss the announcement of proposed merger between Suven Pharmaceuticals and Cohance Life Sciences. As a reminder, all participant lines will be in the listen-only mode and 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 and over to you.

Cyndrella Carvalho: We welcome everyone on today's call to discuss the proposed merger of Cohance Life Sciences with Suven Pharmaceuticals Limited and the business outlook for the combined entity.

Let me introduce you to our management team present with us today. Mr. Annaswamy Vaidheesh, Executive Chairman, Dr. Prasada Raju, Managing Director, Dr. Sudhir Singh, Chief Executive Officer and Mr. Himanshu Agarwal, Chief Financial Officer. We will brief you on the discussion and take you through the transaction and then open the floor for Q&A.

Now I hand over the call to our Executive Chairman, Mr. Vaidheesh. Over to you.

Annaswamy Vaidheesh: Thank you, Cyndrella. Good afternoon, everyone. We at Suven would like to take this opportunity to dwell into the significant announcement of the proposed merger between Cohance Life Sciences and Suven Pharmaceuticals Limited.

This marks a pivotal moment in Suven's journey, underscoring our commitment to advancing towards leadership in the integrated CDMO space, enhancing the scale of business, ensuring stability in earnings through diversification and fortifying our financial standing. Just to let you all know that we have ensured high corporate governance standards while evaluating the merger due diligence, valuation and risk. We did have a detailed due diligence undertaken on Cohance by market leading firms.

All key items identified in the due diligence have been adjusted in the valuation for potential liability. And swap ratio has been jointly recommended by two respected valuers, PWC and BDO. And Kotak Investment Banking has provided us a fairness opinion.

Let's run through the key rationale for the merger. First and foremost, through this transaction, we move closer to our goal of creating a diversified end-to-end CDMO leader from India. We will more than double our revenue base with a combination of the two platforms. And the two combination will provide multiple and diverse engines of growth. Basically three distinct business units, Pharma CDMO, Spec Chem CDMO and API plus, including formulations. So if you look at CDMO, combination will create an integrated CDMO model, which will allow us to follow the molecule through the complete phase of development and lifecycle management for the innovative partner in both pharma and speciality chemical segments.

The addition of Cohance, this is a very interesting element that we all need to know, is that addition of Cohance brings fast-growing ADC platform, reinforcing our position as a leading CDMO platform with better offerings for our customers and partners. And interestingly, even for the API plus, focus on select low, mid and volume molecules with leading global market share backed by deep cost position and robust chemistry capabilities. Last four-year revenue CAGR at 11%, while the CDMO business is growing at 33% with a healthy mix of increasing share in existing customers, new customer additions and new products.

Overall, the intention is to ensure stable growth profile over multiple engines of growth. So multiple global examples of peers exist with similar end-to-end capabilities, probably many of you would be aware. Business mix and service lines from demonstrators scaling up globally.

So the merged platform combined entity will have significant scale benefits. When I say scale, it will become a leading integrated CDMO player in India and top 10 in Asia and with the capacity going from a 1,400 KL to combined capacity of 2,650+ KL. And the customer base going off large pharma and spectrum companies by 1.5x.

Very important thing we need to know that we also now will have an access to niche chemistry capabilities like ADC or antibody drug conjugates, which can be leveraged to service our innovative customers. Access to best-in-class GMP facilities, very important thing that we all need to know, it expands the scope of product offering to existing customers by gaining access to multiple GMP facilities, basically FDA audited. And quite obviously, the combination will have the best-in-class financial metrics, we will be more than double our revenue base with a combination to platform and continue to have best-in-class financial metrics in and around 35% plus EBITDA margins and 30 plus ROCE and sturdy cash flow generation.

I can go on and on, but I think it's very important that I should ask my colleague, Dr. Prasada to take you through the multiple synergy benefits, how this deal is going to bring in. Over to you, Dr. Prasada.

Prasada Raju V.: Thank you, Vaidheesh. Very good afternoon to everyone. We'll take this opportunity to share some more additional insights. We expect multiple synergy benefits that can help accelerate growth and improve margins at a combined platform. We are expecting significant synergy benefits through the merger. We believe you should start realizing cost synergies in next 12 to 24 months and a meaningful revenue synergy in 24 to 48 months post-completion of the merger.

Some of the key synergies derive from expanded capabilities and competencies. It implies providing a broader bouquet of chemistry and scientific capability across the entire platform, which includes adding up dish capabilities like antibody drug conjugates, payloads, electronic chemicals. Interestingly, both segments demand deeper chemistry capabilities to develop and manufacture, enabling us to offer a broader value proposition and to stay more closer to our existing customers.

In addition, lifecycle management capabilities for innovators thereby demonstrates higher availability of scale to our customers, a higher number of globally regulatory approved facilities, five more facilities are going to be added from Cohance to Suven, and increased scope to invest for customers as well. From a revenue standpoint, there is a significant potential for cross-selling to customers as a very limited overlap of key big pharma innovator customers between both the companies.

And we believe leveraging Cohance capabilities to offer to Suven customers and for Suven to offer capabilities of clinical to patent protected pharma CDMO intermediates to Cohance customers is going to play an important role. Opportunity for Cohance to offer API lifecycle management competency, as we all understand, it needs a different mind-set with the global regulatory approved manufacturing facilities to Suven innovator customers for their key molecules as well.

We believe these are all the two important elements that can bring revenue synergies. From cost synergies standpoint, there are three elements that we are looking for. One is, of course, procurement, realized savings in common spending by sourcing materials, given the similar nature of the business, people and G&A optimization across the platform as we scale the combined operations together. The immediate important element is best-in-class cost management. We wanted to drive the continuous improvement mind-set across the platform are the three important element. While the merger process takes time, we are prioritizing sharing best practices across commercial sourcing and operational areas across both the organization. Multiple synergy benefits that can help accelerate growth and improve margins are being sized as we speak.

Now, let me hand over the session to our CFO, Mr. Himanshu Agarwal, to take us through the deal structure and merger related aspects. Thank you. Over to you, Himanshu.

Himanshu Agarwal: Thank you, Dr. Prasada. Good afternoon, everyone. Let me run through the deal structure and the merger ratio. As you would have read, the approved merger ratio as sanctioned by the board is for every 295 shares of Cohance, 11 shares of Suven will be issued based on this swap ratio. Following the deal approval, promoter will hold 66.7% while public shareholders will retain 33.3%. We believe that this transaction is likely to be double-digit EPS accretive to Suven shareholders within the very first year of the implementation of the scheme of the amalgamation.

The merger process is anticipated to conclude over 12 to 15 months subject to the regulatory approvals. The indicated timelines seems like we would require four key approvals. The first one being with stock exchange, SEBI approval. The second one with yourselves as shareholders. Third being with NCLT and fourth, it is likely that we will still require a DOP approval. From a valuation perspective, while Vaidheesh talked about the valuers, so we had appointed PwC and Cohance had appointed BDO. So, both the valuers had asked us to share historical numbers adjusted for the COVID impact and we had also shared with them the next two-to-three-year numbers which took into account the recovery of the Ag Chem cycle.

Based on this, they did a fairly extensive exercise and reached to a joint ratio of 11 shares of Suven for 295 shares of Cohance, which was then further validated by a fair value assessment, an independent assessment by Kotak Merchant Bankers. The entire management team across Suven and Cohance is extremely excited to build this leading CDMO and API player from India and creating value to the shareholders.

I will hand over to Dr. Prasada to walk us through the Cohance business dynamics. Dr. Prasada, please.

Prasada Raju V.: Thank you, Himanshu. Let me just quickly take you through the Cohance business dynamics briefly. Cohance has delivered revenue growth, 16% of four years of CAGR and EBITDA growth which is 27% plus of CAGR on four-year basis with healthy financial metrics includes over 31% plus of EBITDA growth and 34% of ROCE. The Cohance business is outcome of successful integration of three distinctive and unique businesses over the last three years, as our chairman did mention in the opening remark. The API plus business was growing at 11% CAGR, but more importantly, the CDMO business is growing at 33% plus CAGR, which is the most evolving and rapidly growing space. That really gives a lot of excitement to us.

The business has been supported by an additional capex investment of over INR350 plus crore and some more capex is at the final stage of deployment. Unique portfolio has been created under a professional management team. Talking about some of these business growth engines, CDMO contributes to 44% plus of gross profits, 32% of nine months of FY24 revenue. It is business from innovators, which includes pharma CDMO, manufacturing for innovators on patent lifecycle management of molecules. It also has fastest growing, very unique ADC warheads platform, where one of the business unit has world's first synthetic surrogate of manufacturing Camptothecin based payloads and custom manufacturing of speciality chemicals. This constitutes for the CDMO.

From API plus standpoint, 56% of gross profits, 68% of 9 months FY23-24 revenue, which includes primarily API pallets and some of the intermediates. The unique differentiation of Cohance API, when compared with market is they have chosen to be in low to mid volume APIs, where this API is driven by merchant API rather than a formulation driven, relatively less competition intensity. If we can build low-cost position backed up with high degree of backward integration to offer superior supply security to the partners, there is enough chance that they can gain global market share, which is evident by the fact that majority of the molecule Cohance secures top three global supplies for most of the molecules.

The value added formulation is predominantly a service business that is also conscious choice, where it uses captive APIs for forward integration, also including some of the CMO and analytical services.

Now, let me invite our CEO, Dr. Sudhir to share his prospects about medium term outlook of Suven. Again, we will come back with additional nuances on the overall business. Thank you. Back to you, Dr. Sudhir.

Sudhir Singh: Thank you, Dr. Prasada. So, as we have indicated earlier, we believe that around three to four quarters may continue to remain soft. We expect recovery starting in H2 of FY25. Softness is primarily driven by global inventory, de-stocking in the specific chemical segment. We are also observing some select inventory de-stocking in our pharma customers as well. However, we believe this is temporary in nature.

We remain quite optimistic on the recovery and are seeing multiple positive developments that helps drive confidence in medium term. Our RFQs continue to be strong. We have had a positive progress on our phase three pipeline in Suven Pharma.

This is in line with our strategic goal of expanding the pipeline with our customers. Our phase three product pipeline has moved up from two products, now, we have six intermediates to now total five products to ten intermediates. So earlier, you are having six intermediates which were going in five final products. Now, we have ten intermediates now for five products.

Our customer engagement has seen some early success stories. We are working towards elevating a customer to a strategic relationship. We are focused on converting opportunities from the global inventory de-stocking cycle in the Ag-Chem business. In parallel, we are building a specialty chemical team as well. As we informed in earlier calls, we have onboarded an Ag-Chem sales head and further strengthening our team will be taken care of.

Our successful USFDA audit at the Pashamylaram facility emphasizes our quality focus and efforts dedicated towards compliance for our new and existing team. Two weeks rigorous audit with GMP and PAI audits resulting with our low format 483 observations.

Quality compliance and ESG, we have set our goals and work on a committed journey to acquire global accreditation over medium terms, including world rating from EcoVadis.

Now, I will request Himanshu to give a colour on our performance.

Himanshu Agarwal: Thank you, Dr. Sudhir. So, from Cohance perspective, we continue to progress on the growth journey. As mentioned earlier, the CDMO segment continues to reflect sustained growth momentum. It continues to contribute 44% of the gross profit and 32% of the 9M FY24 revenue. And we remain positive about this. The ADC warhead site located at Nacharam unit has successfully cleared audit by EDQM with no major or critical observations. We've also onboarded two large new innovator pharma customers for ADC platform and as well onboarded one new life cycle management customer.

One of the Phase III product is also progressing well on track. The API segment business is expected to recover from the second half of FY25. It contributes 56% of the gross profits and 68% of the 9-month FY24 revenue. There's also an update on the two API qualifications. We have completed one API qualification for the customer and the another one is progressing at an advanced stage. Cohance also had eight consecutive successful audits across the platform and operationally qualified Kilo Lab with OEB6 level standards. I would now request Dr. Prasada to give the final remarks.

Prasada Raju V.: Thank you, Himanshu and Dr. Sudhir. EBITDA margins for the combined platform are expected to settle in mid-30s. However, in near term as we are in investment phase, we might experience margins to be impacted by a couple of percentage points. However, we expect a progressive trend towards the mid-30s over the mid-term. This merger signifies a transformative step for Suven Pharmaceuticals Limited, consolidating our strength and positioning us for sustained success in the dynamic pharmaceutical and specialty chemical landscape with three distinctive engines of growth, Pharma CDMO, Speciality CDMO and API plus.

Let's collectively trade this exciting journey towards a more prosperous future for Suven and open for the floor for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session.

We have the first question from the line of Rashmi Shetty from Dolat Capital.

Rashmi Shetty: Yes, so, first thing I would like to know that in the presentation it is mentioned that, you know, we have paid dividends in Cohan by increasing our borrowings. So, if you can give color on it that, you know, why you have taken borrowings just for paying the dividends?

Prasada Raju V.: Thank you, Rashmi. Now, I would request our CFO Himanshu to take up the question.

Himanshu Agarwal: Yes. So, Rashmi, I think the right way to look at this would be that as Dr. Prasada mentioned, we have invested significant capital in establishing new capex and increasing the capex facility for us. I think I would actually say that the borrowing has been more from that perspective rather than coloring it from a dividend perspective.

Rashmi Shetty: Okay. And so, what is the way forward? I mean, will you look to reduce this borrowing for the next two years?

Himanshu Agarwal: Absolutely. I mean, there is no doubt in our mind on that. I mean, our sense is that we should be able to have a range of 20% to 35% of an EBITDA converted into direct cash every year on year. And that should help us reduce the debt from its current position.

Rashmi Shetty: Got it, sir. And, few more questions just on the merger part, to understand more on how is the Cohance CDMO business, you know, different from the Suven's CDMO business? Is there any overlap? How are the customers perceiving this merger? And, there are many similar kind of CDMO businesses already as an existing player. So, you know, how the customers are really looking at it and how they are going to benefit from this merger?

Prasada Raju V.: If you look at the CDMO business between Suven and Cohance, they are completely distinctly different. And Cohance CDMO business is more superior than Suven business because of the following reasons. Number one, Cohance offers platform technology, which has been indigenously developed, first of its kind in the world. The technology has been developed to manufacture cancer patient-based derivatives. However, Suven, we have always been in the service business of offering capacities. Also, the space in which currently the antibody drug conjugates are evolving right now is evolving at a much faster rate than any other segment in the therapeutic areas. Coupled with, there is also substantial unique science capability and technology capability because of few additions of specialty chemicals and hardcore chemistry of carbon-carbon coupling or manufacturing. They have a unique capability of even developing and manufacturing OEB6 capacities as well. From this standpoint, the Cohance CDMO, which is driven by a platform technology IP owned by Cohance, is much superior than Suven as we understand.

Rashmi Shetty: And just to follow up, so from a margin perspective also, the Cohance CDMO has a superior and better margin compared to Suven CDMO business?

Prasada Raju V.: Rashmi, I would prefer to reiterate what we just mentioned. For example, our current gross profit of the growth of Cohance 44% as opposed to the rate at which it is growing at 33 plus% of CAGR. So, obviously, it implies the healthy margins from the business. And some part of your question also talked about customers. The customer base of CDMO of Cohance and customer base of CDMO of Suven are not same. They are uncommon. One is large US-based innovator company, another one is Japanese-based innovator company for which two products already at commercial scale for antibody drug conjugates payloads.

Moderator: We have the next question from the line of Daljit Singh from Nirvana Capital.

Daljit Singh: Just a couple of clarifications. You mentioned that there has been an improvement of Phase III product pipeline in Suven. And earlier, there were six intermediates, and out of them, five were commercial. And that number has now moved from 6 to 10 intermediates. Is the understanding correct?

Prasada Raju V.: Your understanding is absolutely correct. Now, we have 10 intermediates in Phase III.

Daljit Singh: Got it. And sir, any indication of any of the, I mean, all of the six earlier intermediates, which were in Phase III, any indication whether in next few quarters, something might move up into commercial?

Prasada Raju V.: Our endeavour is to see how clinical development happens. We cannot define exactly how the improvements will happen. For example, one of the product, it has actually moved from Phase I to all the way to Phase III, because the product has been designated as a breakthrough therapy. It's very difficult for us to predict. However, we are doing whatever is best to make sure that our innovative companies stay relevant for their regulatory cycle.

Daljit Singh: Got it. And sir, on the API front, also, you mentioned there are two kind of APIs that has been approved with the innovators. So, whether that has been with Suven or Cohance?

Prasada Raju V.: That is primarily from the Cohance. Some of the APIs started looking for qualification as a life cycle management solution to the innovators. That has been the proven trend at Cohance with the latest development, which has been called out in the script today.

Daljit Singh: Got it. And sir, in earlier interactions, also, when there were possibilities of doing this life cycle management and API thing for Suven innovative clients as well. So, would there be now a possibility to fast track that thing with both the entities combined and more offerings?

Prasada Raju V.: Yes, we believe so.

Moderator: We have the next question from the line of Tarang Agrawal from Old Bridge.

Tarang Agrawal: Just a couple of questions for me. One, what's the dividend policy of the combined entity going to look like? Number two, in your ADC platform, you mentioned about payload, but do you also have linker capabilities? And how big will your ADC revenues be, say, in FY25 as a percentage of your overall revenues?

Prasada Raju V.: Yes, I'll take up the question about ADC. You're very right. We are also looking for expanding payloads. And from a capability standpoint, currently, the focus is on adding one more payload apart from the competition base. And progressively, objective is to explore possibilities along with customers on the linker. But as of now, it doesn't exist as of today. From a dividend policy, I would request our CFO, Himanshu, to answer the question.

Himanshu Agarwal: Yes. Our dividend policy, I think we are going to be conservative in a payout of a dividend. We do believe that we are on the path of a very, very encouraging journey to create shareholder value. And we believe that that would come through investment into business, as well as exploring other inorganic opportunities if they were to arise to us. So that's our view on your question of dividend policy.

Tarang Agrawal: Okay. This question stemmed from the earlier question where, you know, about INR160 crore of dividend was paid out. You did mention that borrowings expanded, but typically, it seemed a bit out of the ordinary. So that's where the question was coming from. But I think it's clear now that you're going to be focusing on reinvesting back into the business. So that's helpful. Also, how big could the ADC business be, say, in FY25-26 as a percentage of your overall revenues of Cohance, or merged entity rather?

Prasada Raju V.: Overall, at a CDMO level, we expect a similar kind of percentage growth, both on absolute terms as well as from a percentage term. Currently, we might not be able to exactly give you a specific number what that would be.

Moderator: We have the next question is from the line of Nitin Gosar from BOI Mutual Fund.

Nitin Gosar: Let me outright register a bit of observation. Once we are a shareholder, we don't appreciate an entity which tries to pay out dividend by taking debt, especially where a merger ratio is due. Those kinds of events don't really go well. And when you yourself called it out, you know, the intent is to close business and keep deploying the cash flow. This kind of action doesn't go well with the guided principles through which you want to grow the business. Coming back to the P&L, combined entity P&L shows that right now we are around 33%, range on EBITDA margin. While you were indicating that it will settle down closer towards 30% in medium term. Was that the right value?

Prasada Raju V.: Nitin, thank you for explicitly mentioning about the dividend observation. As again, Himanshu has mentioned, we reinstate our focus is primarily to reinvest in the growth avenues of the business. And we continue to remain focused on it.

On the EBITDA percentage level, as we were mentioning in the earlier stage of the call, we expect some percentage points of dip in the short term, because we have started investing in our human capital, as well as some of the operating expenses. Hence, it would be lower 30s. And definitely in the midterm to long term, at a steady state, we will definitely be mid 30s of EBITDA.

Nitin Gosar: Okay. And when considering the swap ratio, you did mention that we have considered recovery in Ag Chem cycle for Cohance. This recovery in Ag Chem cycle is expected in year 2025, 2026?

Prasada Raju V.: Nitin, just to clarify the question, the Ag Chem business is pretty much pertinent to Suven at this stage. And based on our understanding about the market, we expect the recovery signals to come in H2 of 2024-2025 towards year end.

Nitin Gosar: Okay. And last is with regard to working capital in Cohance, it has gone up on a 9-month basis. Could you clarify the reason behind that?

Himanshu Agarwal: Yes. So, Nitin, I think we have built in some inventory, especially for quarter four. And as you would notice, that a quarter four cyclically over the period has been a large quarter. And we are expecting a strong quarter in FY24 as well. So, primarily, that is one place where we have invested behind the working capital. We do expect that post quarter four, the working capital position would steadily improve.

Nitin Gosar: But same may be true for the last year as well when the working capital days were 162 and this time it is around 185.

Himanshu Agarwal: Yes, that is correct. So, there is an investment that has also happened on the receivable side primarily with some of the businesses that have been impacted because of a currency crisis as well as a Middle East concern. So, there is some investment that has kind of got blocked because of the foreign currency being unavailable in those countries.

Nitin Gosar: Okay. So, our debtor days have got stretched because of the currency not being available at the country where we have made our sales. Right?

Himanshu Agarwal: Yes. Some of the countries where we have made sales which are witnessing some geopolitical issues.

Moderator: We have the next question from the line of Vivek Agarwal from Citigroup.

Vivek Agrawal: So, can you specify as far as the capacity additions are concerned, so, how much you are planning to invest into the capital expenditure, let us say, over the next two, three years and what kind of the technology capacities you are adding? That would be super helpful.

Prasada Raju V.: Vivek, let me divide this question into two parts. As you heard us, from a capex standpoint, significant investments have already been done in case of Cohance. And at Suven we already have approved capex. The immediate priority for the management team is to ensure the 400 plus scale capacity of Suryapet is come up and running for commercial. And our primary objective is to ensure that the existing capex sweat to a reasonable extent till such time we don't have an intent of committing so much of a capex. However, progressively, in the next four to six quarters time, how the business is going to come back, we might take a proper decision on capex. Current priority is just to focus on filling up the capacity to sweat the asset to derive the business.

Vivek Agrawal: Understood. And, sir, if we talk about business mix, so currently it's around more than 50% coming from the CDMO, and less than 50% is API. So how that mix should change, let's say, in the next three, four years?

Prasada Raju V.: If I'm assuming that your question is related to Cohance business?

Vivek Agrawal: Yes, it's a combined business, basically.

Prasada Raju V.: Yes, definitely. As you know, more than 90-plus percent is more of a CDMO business with very less of other businesses. And the way historical information talks about 33-plus percent of CDMO business growing in Cohance, obviously, sum total will continue to have dominant growth in CDMO space.

Vivek Agrawal: So do you believe that this 30% kind of CAGR as far as CDMO business is concerned, you will be able to do, let's say, over the next few years? So despite all these geopolitical issues, destocking, etcetera, that is there. And even if you look at last year, multiple CDMO companies have reflected negative growth, decline in margins, etc, right? So what gives you confidence that you will be able to continue to outperform the overall market and will we be able to do this kind of growth over the next few years?

Prasada Raju V.: Vivek, it's very difficult for us to really define our own trajectory in a CDMO space. By very definition, we've got to be close to our customers and the success of a clinical phase will ensure. However, the assurance of the Cohance CDMO, which is platform-driven, product is commercial, product is substantially growing on the ADC platform, and also some of the controlled substances, makes us to believe that the growth trajectory will continue. Whether it will continue at the same run rate or slightly lower and higher, we cannot predict at this stage. Coming back to Suven, as you understand, and some of our colleagues are also asking about the Phase III molecule, while we have 100 plus projects which are active, the encouraging thing for us in Suven side, especially on the CDMO, is number of molecules in Phase III got improved. Today, we have 10 products with five major customers, and also the inflow of RFQs are almost 100% higher than last year. The conversion rate is also upwards of 160-plus percent when compared with the last year. These things makes us to believe that we should be able to grow along with the market and our customers as well.

Vivek Agrawal: Thank you, sir. That is great. And last question from my side, if you are able to comment on the ongoing geopolitical dynamics, right? The U.S. has come out and trying to come out with a Biosecurity Act, and that may have some kind of impact on some of your competitors in China, right? So how you see this dynamics playing out and any kind of impact that you witness on your business?

Prasada Raju V.: So as you understand, it's a very true broader sense of it, Vivek. Like you, we are also quietly observing. From our side, whatever we are capable of doing, we are keeping our internal resource right. And beyond the point, we prefer not to comment on this.

Moderator: We have the next question from the line of Chirag Dagli from DSP Mutual Fund.

Chirag Dagli: Sir, in the presentation, you're talking about potential to drive 10% of incremental EBITDA from various revenue and cost synergies. Question was, is this over what period of time is this? Because you're talking about revenue synergies only in two to four years and cost synergies only in one to two years. So just since you put out a number, just want to understand what does it mean?

Himanshu Agarwal: Yes. We very categorically put up around a 10% of incremental EBITDA as the synergy from both the levers. We are more buoyant on the top line while we focus on the cost levers. And as you would understand that the revenue levers will take time, and Dr. Prasada had mentioned that both Cohance has around five innovative customers and Suven has five innovative pharma customers. And the merger gives us actually five plus five, which equals to 10 and not less than 10 innovative customers. So we do find an opportunity where our customer base from a CDMO perspective or from a cross selling doubles from five to 10. And that opportunity is something which we wish to cross sell and harness. And our sense which we've estimated is that we will get two to four years. Similarly, there was a mention that we are looking at leveraging the material consolidation. So the procurement side of it or the operation efficiencies. And our expectation is that one to two years post the merger approval, we should be able to get the basic cost synergies into the business. Net-net, we are looking at around 10%.

Chirag Dagli: I understand that, sir. My question was, is this an annual every year feature? Is this cumulative over four years? You know, since you put it out, I just want to understand what the 10% exactly means mathematically.

Himanshu Agarwal: So mathematically, one, it is not an annualized feature. So, it's not that it will generate annually. It is a generation that will happen. And once it is generated, it will remain in the P&L. So, for a simple perspective, if there is a cross sell, and I generate additional INR25 crore-INR50 crore of revenue, that gets into my base and remains in my base. Similarly, if my cost level goes up or goes down from X to Y, it remains in my P&L perpetuity.

Chirag Dagli: Understood. So, over four years, this is how we should think about it, incremental, the merged entity delivering 10% synergy over four years.

Himanshu Agarwal: Yes, but it will stagger over a period and culminate to 10% over the four years.

Chirag Dagli: I understand now, sir. Okay. And the other one is on patent expiry for the merged entity, is there anything in the base that we should worry about? When is the earliest patent expiry for the merged entity that we should think about that coming out of the base or hurting the base etc.?

Prasada Raju V.: As per our understanding, absolutely no at this stage.

Chirag Dagli: So when is the earliest patent expiry that we should start worrying about?

Prasada Raju V.: We will come back to you once we hear from the customers, because it's very important to take this patent expiry language in totality, Chirag. It's not that if the patent expiry happens, product is going to be half-shell. It does not happen like that. It all depends on the therapeutic category. It all depends on the patient acquaintance with the molecule. Innovator might decide, still continue the same volume at a low price. Hence, the point is, we are very close to our customers. And whenever we hear back from them, we will definitely, appropriately, once we quantify when it is going to happen, we can certainly come back. But answer to your question, in at least next one and a half to two years, we don't seem to have such kind of a situation, because innovators are always informers in advance.

Moderator: We have the next question from the line of Gokul Maheshwari from Awriga Capital.

Gokul Maheshwari: My question is that at the time of the acquisition in September 2023, there was some comments made by the Advent top management on an aspiration to build a billion dollars of CDMO business. So, could you just comment, is that aspiration still there, and how would you plan to achieve that under the combined entity?

Prasada Raju V.: Thank you, Gokul. Let me invite our Executive Chairman, Vaidheesh. Vaidheesh, can you just take up this question?

Annaswamy Vaidheesh: Thank you. You know, as rightly said, when you create a platform, you have to have a vision or a kind of a goal to go after. I think that is what Advent had articulated at that point of time, a billion dollar kind of a platform is the way to go. Now, if you look at the way in which we are now built up, we are almost to that extent of, you know, with Cohance and Suven put together itself, we are talking about a reasonably 50% to 60% of the target, almost 60% of the target. So, frankly, in my opinion, that vision will continue to drive our approach. We will look for opportunities, external opportunities that would fulfil our ambition. So, the long and short, definitely that burning desire to become a billion dollar platform still exists, and we'll continue to look for more options for making that happen in the next five to seven years' time. But let me tell you, it's a vision for ourselves. That's our force behind it.

Gokul Maheshwari: Okay. In the last decade or so, Advent itself has made a lot of investments in a lot of pharma companies globally. So, within the portfolio, what kind of synergies or interactions would combine Suven-Cohance entity have with these businesses? And is that an easy cross-sell or ability to do business with these companies, which are in the portfolio of Advent?

Prasada Raju V.: Gokul, currently, we are absolutely focused on work in hand, which is to ensure that individual companies versus a combined organization, growth must be accelerated. And that's a management focus at this stage. And wherever there is any cross-pollination opportunities with other investments, primarily because of logical extension and meaningfulness in the business, which makes more meaningful sense to Suven and Cohance, we might look at it. Otherwise, our current objective is to ensure that enough opportunities are in our hand, we have to convert them into reality. That's the primary objective that we are currently working with.

Gokul Maheshwari: And lastly, you mentioned about the outlook for the CDMO and the API business. Where does formulation fit in? Because Suven had invested in cash flows, and that is pretty much an underutilized capacity. So, if you could comment on the formulation strategy also.

Prasada Raju V.: Gokul, I think it's an important point that you mentioned. We also recognize the fact that there is a non-core business is in existence with us. Instead of interpreting too much, our current endeavour is to ensure that the business sweats enough and it will break even or it will sustain on its own while we try to focus on pharma CDMO and specialty CDMO. The way things are evolving, we expect in 2024-25, we should definitely be able to get a cash profit to a neutral stage where the business is not going to hurt us going forward. That's the primary objective that we are running tight now.

Moderator: We have the next question from the line of Ankit Shah from Canara Robeco AMC.

Ankit Shah: Sir, you guided for mid-30s kind of margins in the medium term. And if I look at the nine-month numbers on a combined basis, we're already doing 35% kind of margin. Now, considering that you plan to unlock cost synergies and also CDMO business will grow much faster, at least on the Cohance side. So, shouldn't the margin expectations be higher than what we are currently doing? Or do you expect any margin headwinds going forward?

Prasada Raju V.: Ankit, very valid point. But we got to be a little more careful in our commentary, and we wanted to see how market is going to evolve. We have considered all possible risk adjustments that can potentially can happen. That's the reason we are trying to stick to the narrative of mid-30s of combined EBITDA margin. However, because we have been investing on some of the important aspects of human capital as well as opex. In short term, there will be a little bit of a few percentage point impact. Definitely, in the long-term basis, we should be better or at least not lower than mid-30s is the view that we have today.

Ankit Shah: Right. And currently, ADC business would be negligible, would it be fair to say, or it has fairly scaled up from where you started?

Prasada Raju V.: It is fairly scaled up, Ankit, because there are two products which are already commercial, and both the products are doing extremely well.

Ankit Shah: Right. And on the ADC side, do you plan to add more capabilities, say, on the conjugation side or the antibody production side? Or in the immediate term, your focus extend to that or you just focus on adding more payloads in that part of business?

Prasada Raju V.: Ankit, I was also responding to Daljit from Nirvana Capital question. The way that we look at this business is ADC warheads and payloads. It has been more than two decades of research. Finally, Cohance, with this division has been able to build that payload capability. The logical extension is not only just sticking to the current Camptothecin based, there are other avenues where additional payloads can be built in. That's what currently team is focusing right now. In future, if the business demands, probably we should start looking at linker capacity. We all must understand, it's not our choice. Ultimately, we have to look for our customers and partner to see the value in us between India to Western world, wherever there is an opportunity. Obviously, we will also be open-minded for getting into linker business. As of now, our focus is primarily to focus on payloads and warheads.

Moderator: We have the next question from the line of Nitin Bhoir, an Individual Investor.

Nitin Bhoir: Yes. My question is, what would be the total equity of combined entity and equity capital?

Prasada Raju V.: Himanshu, can you take up this question? And just to repeat, equity and equity capital, he is asking about.

Himanshu Agarwal: Yes. So I think in the investor presentation, we have mentioned that the shareholder funds as of December 2023 is close to INR2,000 crore.

Nitin Bhoir: So, equity would be INR20 crore because face value would be INR10 of combined entity or?

Himanshu Agarwal: So, see shareholder funds on a combined entity.

Nitin Bhoir: Yes, I am trying to understand the earning per share for combined entity.

Himanshu Agarwal: Okay. I think that is the easier way. If you just look at the equity capital addition, right, there is a 52% equity capital addition that's happened on FY23 basis. I am not even considering FY24 and the PAT has been added close to around 70%. So, if you just do it from a math perspective, there is 12% plus EPS accreditation that has happened only on FY23 basis.

Moderator: We have the next question from the line of Mayur Parkeria from Wealth Managers (India) Pvt. Ltd.

Mayur Parkeria: I just wanted a little more colour or clarification. You know, in the presentation as well as in your commentaries, you have talked about that two or three times that we have taken note of the liabilities which could have accrued on the Cohance side. And the swap ratio has been adjusted to that impact and the 30% discount to the valuations compared to other similar businesses. The question here is what kind of liabilities were we talking of? Is it something like what the dividend payout obligation was there and it got paid out? Was it about ESOP commitments, charges which have already been taken to P&L or there are something more on the other side? And let me ask you a little more specifically. What is the potential there? Are there any open areas around that?

Prasada Raju V.: Thank you. It is a very relevant question. Let me invite Himanshu to take up this question.

Himanshu Agarwal: So, Mayur, first, let me address the concern. There is no ESOP, there is no dividend payout liabilities over there. These are pure, pure operational business liabilities. In any running operations, there would be few items which would have a potential payout arising in the future, be it a tax or be it otherwise. We have been extremely conservative in considering any liability irrespective of the probability that was given to us by the due diligence partner. And we consider the entire aggregate of that liability as a haircut on the valuation adjustment of cohorts.

Mayur Parkeria: Okay. So, just do I get the number, that is a clarification, not a question, just do I get this number right that the EV was around INR8,500 crore, including the increased debt, which was there, will it be a right number and total EBITDA annualized of INR400 crore? And so, is that the right number for Cohance, which we should look at?

Himanshu Agarwal: Yes, I mean, that is the number broadly. I mean, if you look at it at a very broad level, that is directionally the right number.

Mayur Parkeria: Okay. And given the outlook currently, which we are having of some pressure on the market side and also on the chemical side or on the margin side, how will you call out that, will Cohance be in a position to maintain the annual EBITDA under INR400 crore or will it even be lower? Because there is a huge Q4 number, which is expected. The nine month is only INR250 crore, but that is also in line with the nine month of previous year. But the annual FY23 EBITDA is much better. So, will we be able to maintain INR400, 430, 440 kind of EBITDA for Cohance?

Himanshu Agarwal: Mayur, in all fairness, you have answered the question your own self. I did mention that cyclically, we do have a high quarter four and it is the same for FY23, it is the same for FY24.

Mayur Parkeria: Right. So, despite the outlook being soft, we do not see risk to that number going down, because then that would, the discount, which we are saying and the things which, if the potential EBITDA is going to be lower even in just the six month's time frame, or in that time frame we would be looking at a valuation, which is different, right?

Himanshu Agarwal: No, I did not really follow your question.

Prasada Raju V.: Let me answer. Mayur, your understanding is absolutely correct. From the management side, we also looked at what is the existing order book position, what is the manufacturing plan to deliver the set numbers, what you did mention. The outlook is definitely Cohance should be able to deliver the number, which has been factored in this assessment. That is what our view from an operation side.

Moderator: We have the next question from the line of Gagan Thareja from ASK Investment Managers.

Gagan Thareja: The first question is around the EPS accretion that you have talked on the FY23 basis. If I look on the nine-month year-to-date FY24 basis, for more than a 55% profit accretion, there is barely 4.8% EPS accretion for the nine-month period. That is on a very weak Q3 for Suven. On a normalized Q3 for Suven year-to-date basis, the EPS accretion would have been virtually nil. So I am therefore unable to understand when you say double-digit EPS accretion, why take FY23 basis when we know that FY23 was something that was impacted by or rather propped up by non-recurring COVID-related products in the base, right? Wouldn't FY24 be reflective of the truth in a better way? And if that is the case, then from an investor's perspective, there is barely any EPS accretion?

Prasada Raju V.: Thank you, Gagan. I would request Himanshu, can you just take up this question?

Himanshu Agarwal: Yes. So Gagan, I think even when you see FY24, there also, if you look at the EV, the EV addition is 52% and the PAT addition, despite the fact that Suven results are depressed, it is at 57% and EBITDA addition is at 70%.

Gagan Thareja: The earnings per share accretion is barely 4.8%. And on a normalized quarterly run rate of Suven, it would have been not even there. It would have been probably flat. So for all the profit addition that you're doing with the Cohance addition, there's barely any EPS accretion on a year-to-date basis.

Himanshu Agarwal: I think we will have to look at it from a multiple perspective. We can't ignore the fact that the FY23 numbers, even when the numbers was very, very high, there is an EPS accretion that is happening in FY23. And we have to wait for FY24 results to kind of mature in terms of seeing as to what really it makes up, which is why we have said that we will be EPS accretive in the first year of our merger. I mean, we are very, very clear that we will be double-digit EPS accretion in the first year of our merger.

Gagan Thareja: But then how does that sort of stack up with your commentary that your margins will be under pressure in the first year of the combined entities operations? You're saying that because you will be investing in manpower and doing further opex enhancement, there'll be a 200 bps sort of a margin pressure. And despite that, you're talking of EPS accretion on this base. So could you maybe perhaps enumerate or elaborate a little more on the synergy benefit playing out in the first year or the second year or the third year and give us some idea of how do you expect EPS accretion to dilate or increase from here on?

Himanshu Agarwal: Let me see as to what we can put it out to clarify in the investor deck of what we have done, our internal workings, which shows us that we will be EPS accretive in the first year of merger. But we are very clear based on our internal workings that the first year will be EPS accretive double-digit.

Gagan Thareja: Okay. Right. And from a working capital perspective, what will be the cash conversion cycle for the combined entity versus where it stands today for Suven and for Cohance separately?

Himanshu Agarwal: As you notice, Suven has been a cash generator. I think year-on-year, we are generating cash. So that situation will remain as it is.

Gagan Thareja: I'm talking about the working capital cycle.

Himanshu Agarwal: So ultimately, from a working capital cycle perspective, we do expect that Cohance would remain stable. We would not be investing further on the Cohance working capital.

Gagan Thareja: No, finally, just one more question, which is, are there any contingent liabilities on the Cohance balance sheet, which comes on board with the merger? And if there are, what is the size?

Himanshu Agarwal: No, I just mentioned to you that, we have taken a valuation adjustment for all potential liabilities in Cohance's box. So there is no contingent liability that we expect it to materialize, which we have not considered from a valuation perspective.

Moderator: We have the follow up next question from the line of Tarang Agrawal from Old Bridge.

Tarang Agrawal: Just a couple of questions. One, what are the number of shares that are going to be issued? And second, on the reactor capacity of about 2700 KL for the combined entity, are these all product capacities or there is raw material capacity also included here? And if so, what would be the raw material capacity?

Prasada Raju V.: Let me answer the last question and hand over it back to Himanshu. This is purely a reactor capacity, where between the assets, 1400 KL and 1250 KL of Suven and Cohance consecutively comes back to roughly 2700 KL. As you understand, there is also 400 plus KL capacity of project which is up and running in our Suryapet facility of Suven, which is also going to be commercial. Like this, there are about 150 to 200 KL capacity of Cohance is also coming in play. It is purely a reactor capacity. However, one can look at reactor capacity coupled with the classification of OEB. In Cohance side, multiple OEB facilities are also there. As you understand, though it is less than maybe 100 litters, that OEB is OEB facility. So, that is how one can look at it from a capacity standpoint. It is not to relate with any raw material side.

Tarang Agrawal: Sir, if I may just follow up, for certain products, there may be a possibility that we might be using certain particular intermediates, which could be used across the portfolio. And to that extent, whatever is my KL capacity, it will be more backward integration than actually getting revenue out of it. So, my question was from that standpoint, that do we have any dedicated capacities for specific intermediates, which would tantamount to backward integration?

Prasada Raju V.: This is primarily from a business standpoint. Today, these capacities are adding up. We have no plan for using one capacity for additional backward integration. That has not been the initial consideration. However, individual businesses have to continue to grow. If there is any opportunity of any backward integration, for example, in Suven's CDMO, we will be open-minded to look at the capacities which are available in hand. Instead of trying to create something, our abilities to have a flexible mapping will be secured. There are no common intermediates which are manufacturing today, where this manufacturing of intermediate will directly get into a sale. Hence, this capacity is not going to be realized as a sale. That's not the situation. I hope this answered your question.

Tarang Agrawal: It does. It does.

Prasada Raju V.: Thank you. On the first point, Himanshu, if you can just take it up.

Himanshu Agarwal: Yes. certainly. So, Tarang, the Suven equity base was 25.4 crore shares. And the ESOPs of 65 lakhs were issued, which made the share count as 26.1 crore shares. The post fully diluted share, post the merger, will take this to 38.97 crore shares.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question for today. I now hand the conference over to Ms. Cyndrella Carvalho for closing comments. Over to you, ma'am.

Cyndrella Carvalho: Thank you everyone, for your time and joining us and understanding and spending your efforts with us. We respect all the questions. And whatever questions are remaining unanswered, please reach out to me or the CDR team. We will come back with explanation. Thank you so much.

Annaswamy Vaidheesh: Thank you everyone.

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