

Syngene International's Q3 FY 2020 Conference Call

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Key Participants from Syngene International

- Mr. Jonathan Hunt: Chief Executive Officer
- Mr. Sibaji Biswas: Chief Financial Officer
- Dr. Mahesh Bhalgat: Chief Operating Officer
- Dr. Kenneth Barr: SVP, Discovery Services
- Dr. Jan-Olav Henck: SVP, Development Services
- Ms. Chanderlekha Nayar: Investor Relations

Moderator: Ladies and gentlemen, good day and welcome to the Syngene International's Third Quarter Financial Results Conference Call. 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. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchstone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Chanderlekha Nayar from Investor Relations. Thank you, and over to you ma'am.

Chanderlekha Nayar: Thank you, Margaret and good afternoon, everyone. Thank you for joining us on this call to discuss Syngene's Q3 performance. On this call, we have Mr. Jonathan Hunt - Syngene's Chief Executive Officer, Mr. Sibaji Biswas - Chief Financial Officer, Dr. Mahesh Bhalgat - Chief Operating Officer, Dr. Kenneth Bar - SVP Discovery Services, Dr. Jan-Olav Henck - SVP Development Services and various members of the executive team to discuss the financial and business performance for the third quarter. After our prepared remarks, we will be happy to answer any questions you have.

Before we begin, I would like to caution that comments made during this conference call today will contain certain forward-looking statements and must be viewed in relation to the risk pertaining to our business. The Safe Harbor clause indicated on our Investor Relations Presentation also applies to this conference call. The replay of the call will be available for the next few days immediately after the call and the transcript would be made available in a week's time. With this, I will turn over the call to our CEO - Mr. Jonathan Hunt. Over to you.

Jonathan Hunt: Thanks, Chanderlekha. Once again, thank you all for joining us on this call to discuss Syngene's third quarter performance. I am delighted to be accompanied today by Sibaji Biswas - our new CFO, as well as various members of the executive team. So, after my opening remarks I will take you through some more details on our Financial Performance.

Let me start by giving an overview of the quarter's key financials followed by operational highlights. Firstly, if we take a look at the top line, third quarter revenue grew from Rs.484 crores to Rs.539 crores in the quarter, that is a growth of 11%. Key growth drivers were strong performances in our Discovery Services Group and also our Development Services.

To move down to P&L, EBITDA was up 10% from Rs.158 crores to Rs.173 crores, while profit after tax was up 6%, that took it from Rs.87 crores to Rs.92 crores. During the quarter, we continued with our ongoing investments in safety, quality and technology, and we also made three important new appointments to the leadership team. These investments are critical in strengthening the foundations of the company and to ensure that our growth is sustainable over the long-term.

I am going to leave it to Sibaji to give you more details on the financial performance in a few moments. Let me now move to some of the Business and Operational Highlights.

As you know, we have had a theme over the last two years of investing in new technologies, new capabilities in the development of new scientific skills. I just

wanted to call out one. It is an illustrative example, but it shows you a little bit about where our ambitions lie in terms of innovation. I have mentioned in my earlier comments that we really see Discovery Services as a strategic growth area. Within Discovery Services, we have done quite a lot in terms of developing our capabilities in CAR-T therapy. As you may be aware, some of the more recent and I think important breakthroughs in cancer treatment have come in this area. It is a rapidly expanding field of personalized medicines, through the genetic modification of the patient's own immune cells to specifically target and kill tumor cells. This technology is really a combination of cell and gene therapy, chimeric antigen receptors, T-cell therapy or popularly known as CAR-T therapy. Syngene scientists have been engaged in cutting edge discovery and pre-clinical research in CAR-T therapy and our work includes hypothesis testing and validation of new biological targets as well as the exploration of novel mechanisms related to CAR-T therapies. Allied to that our clinical division also offers clinical trial monitoring and data management services to those physicians that want to deliver CAR-T treatment.

On the operational front, you may recall the appointment of Dr. Kenneth Barr about a year back as Senior Vice President, Discovery Services. That has really helped us consolidate our Discovery Services portfolio and offer more integrated service offerings to clients. Now that integrated approach I think has gained significant traction in the Discovery Services business.

So, on a very similar line, we have appointed Dr. Jan-Olav Henck to the position of Senior Vice President, Development Services. Dr. Henck brings with him more than 20-years' experience in the area of drug development for both large and small molecules and he will be responsible for integrating of all development and clinical services offering to mirror that approach that we have taken over the last year in Discovery Services. This integrated approach will allow us to extend our relationship with key customers across multiple service lines and really help us grow our share of their R&D projects.

I mentioned this already, but a second particularly important appointment for this audience, I think is Sibaji joining us as CFO. As you know, he replaced Mr. Chinappa back in December who has moved to a new role within the Biocon Group. Sibaji is a seasoned finance professional, has been associated with Vodafone, Hutchison Essar, Fascal Telecommunications and the ABP Group in the past.

And of course, last but not least the newest member of the management team is Vinita Shrivastava who is the Chief Human Resources Officer. Vinita brings with her over two decades of experience in HR and has been associated with Unitherm, Harman International, Tesco and HCL Technologies in the past. She was most recently Senior Vice President and Chief Human Resources Officer at Sasken Technologies.

Also, while we talk about people and management changes, I am sure you would have noticed one management change within the company that we announced today. And that is the separation of the Managing Director and Chairperson roles. I am delighted, of course, Kiran Mazumdar-Shaw will be continuing in the role as non-executive chairperson, and I will take up the role of managing director and CEO effective from the 1st of April.

Looking at some operational factors, during the quarter, we received GMP or Good Manufacturing Practice approval from the Russian Health Ministry and that is going to enable us to supply drug products to the Russian market. It is an opening up of a new geography for us and I think that gives potential for future growth in that area.

The viral testing facility that we have also received another certification, that is GLP certification. This time from the NGCMA. That makes us I think India's first and only GLP-certified viral clearance study service provider. These approvals really confirm Syngene's commitment to operating at that very highest standards of quality and compliance.

A little bit of an update on Mangalore. The facility is now nearing construction completion and we expect it to move into being operational towards the end of this current financial year. Then of course we have talked about this on numerous

occasions in the past, while starting those operations we will also be going through simultaneous qualification and validation processes as we ramp that up over the next financial year to full scale commercial operations.

So, if I can sum up, overall the third quarter showed steady growth, sets us up well for the final quarter of the year. I think we are making good progress on our strategic priorities. We continue to invest in fundamentals that I think really build the strong foundations we need for the long term. We see attractive growth opportunities in Discovery Services and Development Services across the business. I think our investment in areas like CAR-T, I would point out that as an illustration, are good examples of us really moving our science towards the leading edge of what is possible. Against this backdrop, I expect to see our core businesses of Discovery Services, Development Services and Manufacturing Services continue to drive growth as we move towards the next financial year.

With that, let me hand over to Sibaji to maybe make some more detail comments on our financial performance.

Sibaji Biswas: Thanks, Jonathan and a very good afternoon to all. I am delighted to take you through our third quarter 2020 financials. This is the first quarter for me in Syngene and I had the benefit of working alongside Mr. Chinappa for a few weeks and I am already feeling very well integrated into the company. I am looking forward to meeting many of you in person in the near future.

Now coming to the financials for the quarter, let me start with the top line growth. The third quarter delivered a steady revenue growth year-on-year. Revenue increased 11% to Rs.539 crores compared to the same quarter last year. Our core sales improved by 11% during the quarter which reflects growth in Discovery Services and Development Services.

In Q3, the average exchange rate was \$71.22 compared to \$69.82 in the same period last year. Adjusted for that, on a constant currency basis third quarter revenue grew at 9% year-on-year. Gross margin at 43% during the quarter compared to 44% in the

same period last year, impacted by the strategic staff additions and associated increase in payroll costs.

Let me take a moment to explain these items. During the quarter, staff cost increased by 28% to Rs.152 crores compared to Rs.119 crores in the same period last year. This increase is attributable to three main buckets. First one, the employment as usual which grew in the range of 10% to 12%. This is almost in line with the growth of top line. Then comes the hiring for yet-to-be scaled up investments in assets like the Hyderabad site and that contributed to about three percentage points. Additions to the senior and the middle level leadership to build an organization, capable of scaling up contributed to the rest. As a percentage of total revenue, staff cost represents now 28% compared to 25% in the same period last year.

The raw material and power cost as a percentage of revenue at 29% was down by 2% due to shift in sales mix compared to 31% in Q3 of the previous year.

Now coming to the company's other expenses which comprises of professional fees, selling expenses and other general overheads, that is up by Rs.14 crores to Rs.70 crores compared to Rs.56 crores in the same period last year. This is coming from additional operating costs incurred in the new Hyderabad facility and the S2 facility at Bangalore and a planned increase of spend in business development activities. Our efforts to build one of the finest quality cultures in the industry and an increased investment in safety and compliance also resulted in additional expenses, but we strongly believe that our commitment to quality, safety and compliance will pay off in the future as we scale up our business in the next few years.

EBITDA for the quarter was up by 10% to Rs.173 crores compared to Rs.158 crores in the same period last year, while profit after tax was up by 6% at Rs.92 crores compared to Rs.87 crores in Q3 last year. Depreciation stands at Rs.57 crores, up from Rs.43 crores in the same period last year and this is owing to the investment in the Hyderabad facility and expansion in Bangalore facility. EBITDA and profit after tax

margin for the quarter are at 32% and 17% respectively and this is compared to 33% and 18% in the same period last year.

During the quarter, we recorded an interest income of Rs.20 crores and finance charge of Rs.9 crores which includes the Rs.2 crores towards the facility lease charge. Associated with this interest income, we recorded Rs.6 crores of income tax. Our adjusted EBITDA margin for the quarter excluding interest income is 29% and the adjusted profit after tax margin excluding interest income and finance charge is at 16% compared to the same quarter last year adjusted EBITDA of 30% and adjusted profit after tax margin of 18% respectively.

As you may know, Syngene follows the practice of hedging all foreign currency revenues. Currency movement during the quarter has been less than anticipated, resulting in a hedging gain of Rs.10 crores in the quarter. This reflects the difference between the forward rate versus the prevailing spot rate. The hedge rate was at Rs.72.7 and the spot rate was Rs.71.2 during the quarter. In comparison, the hedging gain in the same period last year was around Rs.1 crore.

With this, I will come to the nine months results. During the first nine months of FY20, revenues have grown to Rs.1,466 crores. This is 9% up compared to Rs.1,346 crores in the same quarter of the previous year. If you recall, we reported one-time pass-through billing of Rs.40 crores during the first quarter of fiscal year 2019. If I exclude that impact of the one-time pass-through billing, the revenue for the first nine months actually grew at 12%.

EBITDA for the period was Rs.475 crores which is up by 10% compared to Rs.431 crores in the same period last year. Profit after tax was up by 6% to Rs.246 crores compared to Rs.232 crores in the same period last year. EBITDA and PAT margins for nine months are at 32% and 17% respectively. The effective tax rate for the first nine months of FY20 is 16%. Last year this was at 19%. The decline in the effective tax rate is mainly due to the impact of the new units that are expected to go live during the

year. It also takes into account the true-up in relation to income tax returns filed for the previous year in the current quarter.

With regard to the insurance claim related to the S2 facility, the total amount received to date is Rs.177 crores. This is against the total loss of Rs.106 crores. We expect to file the final claim over the next three months and receive the last installment in the next fiscal year.

I will come to the Balance Sheet. During the first nine months of the year, we have invested approximately US\$81 million in our ongoing CAPEX programs, of which US\$34 million pertains to the commercial API manufacturing facility, another \$23 million has gone into Discovery Services and the balance of \$24 million has gone into Dedicated Centers and Development Services. With this capital infusion, our fixed assets currently stand at US\$425 million. This includes an asset under construction of US\$70 million. Overall, we are very much on track to have a total asset base of US\$550 million by the end of the next financial year.

The construction of our commercial API manufacturing plant at Mangalore is on track and is scheduled to be operational as planned by the end of this financial year. As Jonathan has pointed out many times in the past, this project once commissioned will go through a process of qualification and validation. We are very happy with the progress of the project and the fact that it is absolutely on plan and I would urge you to take the ramp up period into consideration while building up your projections.

Finally, turning to the full year. We continue to deliver steady revenue growth in the third quarter which keeps us on track for the coming quarter. Despite this positive momentum, lower than expected growth in the first half impacts our overall annual performance which we expect to be in the low-to-mid-teens for the full year, consistent with our ambition to deliver upper quartile growth in our industry context.

As outlined earlier, we have invested significantly in future growth, which comes with a mid-to-long-term ramp up period. The resultant fixed costs are putting some pressure on the margins at present, however we believe this trend will neutralize as

these investments start to generate returns. Overall, we are on track with our growth plans for the company and we strongly believe that we are investing wisely for our anticipated growth trajectory in the coming years.

With that, my commentary is complete. I will now hand back to the operator, and Jonathan and I will try to answer any questions that you may have.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Just a clarification on your guidance of low-to-mid-teen growth. This is on the adjusted basis which we saw in Q1 some aberration or this is on the reported basis?

Sibaji Biswas: Both will be in the same range. Obviously, the adjusted will be a couple of percentage points higher, but even the reported will be in the same range.

Prakash Agarwal: Secondly, just more color on what is leading to a softer growth than anticipated. I was reading through the last Q1 and Q2 transcripts. Q1, we had said that there has been some rephrasing of couple of projects and we expect second half to improve and so was the commentary in Q2. So, what is really leading to a softer growth than expected? Since we have made the investments, how do we see a year after?

Jonathan Hunt: Prakash, thank you for the question. I would sort of split the difference with you. Actually, our sort of comments in earlier quarters turned out to be reasonably accurate. We did expect growth to step up during the year. I will remind you, first quarter of the year was 4%, second quarter was 11%, third quarter was 11%. We have just suggested the fourth quarter is going to be a little bit ahead of that, in the low-teens range. So certainly, your second half versus first half comparison when we get to the end of the financial year will show that growth accelerated through the year and the second half had stronger growth than the first half. That said I think totally, you are right, a little bit behind where we thought we

might have been, but I would not call out anything specific or significant about it. We have got a good deal pipeline that is starting to build. Sometimes these things take a little bit longer to pull-through than you would hope. But it is good to have that demand there. So, in terms of outlook for the new financial year, I think we are feeling pretty positive. We are certainly seeing very good demand for our Discovery Services, we are seeing picking up in our Development Services. There are lot of opportunity out there. As for specific growth rates for the new financial year, we have a policy really of not commenting or guiding on that, but I am sure when we get to the year-end in April, we will give some sort of directional hint, but we still got a whole quarter to go before we are at that point. But hopefully those comments are helpful.

Prakash Agarwal: What I was trying to ask is H2 typically is 15%, 20%+ growth, Q3 is 11% and even if you do 15%+ we are still at the lower spectrum. We have been investing in safety, quality and business development in the last six quarters which has led to some higher cost also. So, when is that inflection point when we see that our revenue growth is higher than the cost growth is what I am trying to understand.

Jonathan Hunt: I understood the question. I think I gave the best hints that I can in terms of we expect the fourth quarter to come in low-to-mid-teens, and for next year, very happy to talk about that at full year results.

Prakash Agarwal: On Hyderabad, what I understood was the costs are baked in the current quarter. Has the revenue seen the full impact or is it going to pick up as we speak, and how much of it? I think 50,000 sq.ft. is what you said has started and another 50,000 sq.ft. by end of the year. If you could just give some broad color on Hyderabad dynamic that would be great?

Jonathan Hunt: We had a soft launch in the quarter. We are doing all the things you would expect when you are opening a brand-new site. We are recruiting staff, building up the headcount, getting people up and running, that has gone I think pretty well. From memory, we are up to a little bit over 100, maybe 150 people or so in that facility. I look forward to it growing, not just within the infrastructure we have

already opened. By the way, the actual formal opening of that is next month. So, we are not at the official launch of it, but we are in that soft launch period. But I think if our inclinations around future demand are right, then I can see us building further buildings in Hyderabad and expanding and developing that site a bit more which I think would be a good thing. There is some real talent in Hyderabad in terms of scientific talent.

Moderator: Thank you. The next question is from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: Just wanted to have some clarity on the investment towards the biologics manufacturing front. Since in the presentation, we have mentioned that the biologics manufacturing facility is likely to see full scale operation in next couple of quarters time. So, what is the kind of investment that we have already made there and what is the position there and what kind of activity we are currently doing there, I mean, in terms of revenue, whether we have seen something meaningful to report or say?

Jonathan Hunt: As you know, we do not break out segmental reporting. But I will do my best to sort of paint a picture. The biologics plant as you know is state-of-the-art and we chose to go for the more modern forms of the biologics manufacturing facilities. So, it is a 2,000 liter scale disposable state-of-the-art unit, and we are in the process of bringing four of those. We have got two up and running at the moment, and I am pretty sure we will have the other two commissioned and ready to go quickly. That gives us I think a reasonable amount of capacity. From that we are just waiting in parallel to make sure that the order book is full. So, I think your question got it right. Biologics is one to watch throughout the next financial year and I am sure we will update you quarter-by-quarter how we are doing with that. But as yet, it is not something we have chosen to break out in line of its own in the P&L.

Surya Patra: What are the total investments so far that we have made, and what is likely in the near future for the biologics one?

Jonathan Hunt: Investment in the biologics were sort of done for this first phase. So, there is no incremental capital investment going in on that immediately. But the actual number we never disclosed.

Surya Patra: We have been saying that whatever growth that we have been reporting, though it is one of the lowest over last 10-year period, is largely led by this Discovery Services and Development Services. So, are we seeing a kind of a growth concern in the manufacturing?

Jonathan Hunt: I am just trying to actually calculate math and see if your comment that this is one of the lowest growth period in 10-years is right. I suspect it is probably not. I can think of more than one quarter where we have had lower growth. First quarter of this year, we had 4% growth. If you go back two or three years, we have had others. At this point, while I am sure I would be delighted that the revenue was growing more than 11%. I actually see it as fairly steady, solid performance. If you think about who our customers are and when you think about global GDP, 11% growth is a multiple of global GDP, and it is also a multiple of the sort of growth rates you are seeing in the pharma and biotech industries which are our principal customer groups. That sort of suggests that we are continuing to gain market share at growth rates like this. So, double-digit growth is pretty solid. That said we are ambitious to do more.

Surya Patra: Sir, I was just trying to compare the growth momentum or trajectory of Syngene with that of the leading Chinese player WuXi AppTec. They are maintaining around more than 30% kind of trend throughout last couple of years and even in the current YTD. So, whether we are losing market share to our competitors is that my question?

Jonathan Hunt: Proportion of that business is much more centered in biologics manufacturing and they have been in that area I think for a much longer period than we have. That suggests, I think we should have some optimism about the investments we have already made in biologics manufacturing capacity. I would go back to your

early question around, “Is biologics something we should be watching over the next year or so?” I think the performance you have seen with WuXi AppTec, very good organization I would say, indicates there is global demand for those sorts of services which sort of gives you a sense of the strategy of why we were happy to invest in that area.

Surya Patra: Just a clarification from Mr. Sibaji. Sir you have indicated that so far CAPEX is something like \$425 million and by the end of the next financial year you are targeting something like \$550-odd million. So that means you are targeting something like near about \$150 million kind of spend throughout next one year period?

Sibaji Biswas: That is correct. We are targeting \$125 million in the next one year and three months period.

Jonathan Hunt: Just to be clear on that, it is not a new disclosure. I think that is the same math, same comment that we have updated each quarter for the last couple of years. I think the assumption, take the delta between the two-straight line, it is probably the best advice we can give you on modeling it.

Surya Patra: Wanted to have some sense on the cost side also, since the Mangalore facility would be commissioning soon, there would be some kind of a cost pressure that would be there. You mentioned in your opening remark. If you can clarify a bit more on that?

Sibaji Biswas: Yes, that is correct. But, the plant will be commissioned by the end of the quarter, and the cost either in terms of operating cost or depreciation will start building up from the Q1 next financial year. We can guide you better in the next call on that subject.

Surya Patra: Just last one question to Dr. Henck. If you can share your thought on the trends that you are witnessing in the Discovery and Development Services front globally and where do you see Syngene going ahead?

Jonathan Hunt: I think if we look on a global basis, there was a time not so long ago where the debate was how much of the science would be done in-house and whether or not you could do any of it in a partnership model. I think the industry and when I say the industry, I am largely referring to the pharmaceuticals and the biotechnology industries, have moved way beyond that. Certainly, most of the chief executives and heads of R&D that I meet could not conceive of innovating and delivering science without some mix of in-house science, academic collaboration and then partnerships with organizations like ours. So, I think it has become an integral part of the industry model. That said, I still think there is an awful lot of structural growth available because they have not fully maximized their ability to do that. We do for example and we have seen quite a lot of this last year in our Discovery Services group. We are now seeing a much more accelerated rate at which start-up companies, those that have good venture capital funding and may be small to mid size biotech companies point principally to the US, but you are also seeing this in Europe, are getting much more comfortable that from the very beginnings of the creation of those companies, they are going to hybridize their R&D strategy, partner with organizations like us. That in turn I think reflects maturing of the capabilities that we have, companies like Syngene and some of our peers where we are now operating at a much more deep and detailed level of capability. The comments I made in my remarks and I think in made in one or two press calls today around the work we are doing. It is only an example, so do not overemphasize on it. CAR-T therapy is actually quite a good bellwether. It shows you that the CROs, particularly the leading ones around in all modesty put Syngene in that group are capable of operating right on the leading-edge of science. If I summarize that good structural reasons to think that this continued growth is available, you have to be competitive, you have to be value creating for your clients and then you have to bring the science and we are increasingly doing that.

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

Charulata Gaidhani: My question pertains to the two new certifications: One from the Russian government and second from India's viral testing facilities. What kind of outlook would you see for both these businesses coming into Syngene?

Jonathan Hunt: Mahesh, if I can ask you to maybe make some comments and explain what the viral testing is. But before you do that, I will take the Russian question. This is just another regulatory inspection. As you know it is almost a routine matter for us or certainly a regular matter to have regulators from around the world come and inspect our facilities. We have had a number of those principally the FDA and other regulatory authorities. In this occasion, it was the Russian regulators who inspected our facility. What triggered that was some work that we did with a client who wished to supply product that we help them develop into the Russian market. Of course, I cannot comment on the value of that because that is proprietary for them in terms of their expectations. I would not call it out today as being significant from a revenue modeling point of view. But I do think it is one validation of our operating standards that yet another global regulator has inspected our facilities and approved them. Secondly, it does open up for the future for our BD teams to be able to tell our potential clients that we are regulatory approved and we can supply the Russian market. Think of as a door to go through rather than a business certainty. But that is a good opportunity to open up. Mahesh, viral testing.

Mahesh Bhalgat: On the viral testing bit, let me tell you that we talked about the fact that we are focusing our emphasis on the biologics component of our business which is of course a very high potential component of it. One of the things that is required for successful biologics is viral testing. We have now started making sure that this viral testing is done in a GLP environment which is a good laboratory practice environment, certification for which is given by NGCMA, and we believe we are the only laboratory in India that actually has this certification. This further reinforces our commitment in biologics and actually makes this service available to other biologics manufacturers around the country and around the world.

Charulata Gaidhani: When do you expect this adding on to the top line?

Mahesh Bhalgat: It is already an approved service and it is already something that we use for our own processes.

Charulata Gaidhani: How do you see it scaling up?

Jonathan Hunt: I think it will scale up as a derivative of our biologics business. I refer you to the comments I made earlier which is something that I think you should track over the next year to two years and see how we progress with that.

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

Ankush Agarwal: Can you just give me some color as to how much of Syngene's business is actually on the manufacturing side versus on the services side? I assume that all the three services that we provide in dedicated services, development and manufacturing and discovery, all are split equally, right. On the development and manufacturing side, how much would be actually manufacturing, how much would be on the services side, like clinical trials, process research and everything?

Jonathan Hunt: Yes, happy to give you a comment on that. As you know, the heartbeat of the organization traditionally has been chemistry services, overtime they have grown and scaled. The way I would look at it is sort of three buckets. If you think about Discovery Services, it is between 30% and 40% or so something like that. Add on to that same again in terms of Development Services, maybe a little bit less towards the bottom end 30%. And then you put the dedicated centers which leaves us with pure-play manufacturing probably running around 10% of the business today.

Moderator: Thank you. The next question is from the line of Krishna Prasad from Franklin Templeton. Please go ahead.

Krishna Prasad: If you can just talk about what has been the pricing trends in the core Discovery and Development Services market? If you can share any outlook on the same, that will be helpful. The second question I have is, if you can also share what

was the pre-operative expenses for the Mangalore facility for the current quarter and the nine months for the current year?

Jonathan Hunt: The quick answer to that is, no, we do not give that level of disclosure. We go back to the general sort of pricing trends. I mean, there was a correlation in our business that the simpler, more repeatable the type of work you do, the more commoditized or generic the pricing is. General trend on that is reasonable stability actually. We have not seen prices shift too much, they are constant. If you want to really increase your pricing or at least the value creation you have in the services, one of the ways to do that is either to add singular services that have got more complexity or maybe have some proprietary element to it or are unique. The other way to do it and we have done a lot of that over the last years is to integrate them into an integrated service offering. So, if you take chemistry and you ally it to biology and then you wrap informatics around it and you put it in the context of safety, toxicology, you go from offering functional services to actually answering scientific questions. And that if you can do it with speed and reproducibility and high quality adds much more value. So, if you want to drive pricing power in the business, it is partly around integrating those services and making them more added value. In terms of outlook, certainly comments on where we have been over the last year, I would say no big change. Good pricing stability. I am sure there is always the give and take and swings and roundabout in every procurement negotiation, you win some, you lose some, but overall it is a fairly stable environment for us.

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

Cyndrella Carvalho: My question is, we are trying to move from a CRO to CRAMS model which is like a forward integration. Could you help us to understand what are the key drivers of this change? If you could add to it by some key monitorables that we could assign to it? And is any color on the order books that you could help us?

Jonathan Hunt: There is a sort of a theme coming through there in terms of questions which is, can we help you model for the next financial year. Forgive me if I remind you that our policy on that is no. We are happy to talk about our strategy. We will try and give you a sense of the dynamics of the industry, but line-by-line guidance is not something that we do as a policy. That said, I will pick up an element in your question because I think the integration of Discovery Services into Development Services, into forward integration, into commercial manufacturing, one level is very similar to the comments I made around the previous question that we got which is how do you drive price and value accretion. Fundamentally, our clients are looking to solve the scientific problem. And in answering that, create value by creating a product they can take to market to serve patients, and therefore, it is a slow process. There is a beginning and middle and an end. And if you can increase the speed at which you do it, the accuracy you can do it and often you can take cost out as well. And that is quite compelling. So for us, the ability to be a one-stop shop, to start with fundamental scientific questions at the front end of discovery help our clients elucidate is something a good target, is the molecule you selected a good molecule to engage with that target, whether it is to inhibit it or to accelerate it, to take that forward and prove that it is ready to go into human studies with an IND package, and then as it goes through its clinical testing in patients to be able to develop the processes, the manufacturing, the form function of formulation to get you all the way through to a drug and then commercially manufacture, it is quite compelling. Because if you do not do them all in one place, you have to do them in separate parts with organizations and you lose speed and you lose clarity and momentum in those handovers. So that is the fundamental philosophy. While it may look new from a CRO to CDMO to CMO to a fully integrated service provider, actually all is doing is rebuilding the value chain of our client organizations anyway. You start to mirror the processes that they are most familiar with, and I think that creates value. Hopefully, that makes sense at least from the strategic bit of it. I am sure you will understand if I demure in giving you a line item direction on how to model that for the coming year.

Cyndrella Carvalho: If you could help us understand because we have invested heavily into the next forward integration. So, at least some sense in terms of how should we look at it, at least the timeline you can say over another two years we should be here or three years we should be looking forward for this milestone. Anything that you could give strategically, indicatively would be helpful?

Jonathan Hunt: Apologies. I misunderstood the depth you wanted to go from the question. I can take you back to the comments that we have made just about every quarter for the last two years which is that from the biologics side we have made the capital investments we need to get the foundations in place for biologics manufacturing business. We are starting to see that already in the P&L. So, some of the growth that we are delivering today in revenue is coming from that. I think the next 12-months would be quite an important period for that particular unit and I look forward to reporting on that at the end of each quarter throughout the coming 12-months. So, on the biologics piece I think as you time scale to look for some sort of roll out and impact, and I think it is fine. We will report on it at the end of each quarter. On the API, the commercial manufacturing of small molecules, again, I am hoping that the timelines are fairly clear. You have a good idea of the amount of capital that has gone into that facility. I think in the past, Chini has given you fairly good say that we look for one-to-one sort of asset turn as a rough approximation. So from that you can derive what you think at peak future revenue is. And then the start line really is the end of March, beginning of April, we will go live with the first phase of operations. I think I would model that as a gentle glide path over the first 12-months, and then in a year from now, I would be asking the question again on outlook and how quickly can we get towards peak or full utilization and manufacturing plants seldom on 100%. So, I think there is enough in there. If you take those jigsaw pieces, you could build a model.

Cyndrella Carvalho: You guys have already spoken about cell therapy, gene therapy. I just want to understand from Syngene's platform perspective, how close are we to the current research which is ongoing or is there more that we need to bring on our platform to get there, where are we?

Jonathan Hunt: We have got Kenneth Barr with us who heads up the Discovery Services. But, he may be in a better position to comment on that. But I will make a couple of initial comments. I think where we are is on the Discovery Research end, so when you are still in that sort of discovery biology phase, we have got pretty good capability, and actually now we are starting to garner a reasonable time period of track record. We have been doing work in that area for a year or two and we have got some good engagements with some major corporations that are very deeply committed to it. I think the elements beyond the Discovery Research are a work-in progress. But they are not something I would call out with the capital markets share for you to be thinking about from a revenue point of view. Part of the reason we commented about CAR-T is today not only is an earnings review, but it is also a media briefing on what is going on in the company. I rather shamelessly told the world about our CAR-T because I quite like our clients to know about the science and capability we are capable of as well. So, we are putting in a short window. It may not necessarily have been for the analyst community to start modeling, but certainly for our clients to be aware of. Ken, anything you would add in terms of CAR-T and capability?

Kenneth Barr: Well, it is certainly an area that is of great interest to the industry and many people are very focused on the growth in that space. As Jonathan indicated, we are working closely with some of our clients in that area. I think really in the discovery space on the leading edge of the technology. As you said we are looking forward as well to what happens on the development side. So that is something we will have to come back to you as time unfolds.

Moderator: Thank you. The next question is from the line of Shaleen Kumar from UBS Securities. Please go ahead.

Shaleen Kumar: Can I please request Mr. Biswas to repeat his comment about the capital investment they have done in nine months?

Sibaji Biswas: So in nine months, we have invested around \$81 million of capital, and as I said, \$34 million of that has gone for the commercial manufacturing plant in

Mangalore, \$23 million for discovery and the remaining \$24 million for the rest. So that is about split of the money that we have spent in the last nine months.

Jonathan Hunt: And Sibaji, that takes us to...

Sibaji Biswas: \$425 million cumulative investment.

Jonathan Hunt: And we have got \$550 million as the overall, so the delta between the two is \$125 million, and you have got about a year runway on that. So, you could straight line it and you would not be far off.

Shaleen Kumar: So that leads me to understandably that API manufacturing coming online this quarter. So, I doubt there will be a lot more CAPEX will be planned for that. Jonathan, you just made a comment that biologics also no near-term investments. So, is it fair to assume that significant part of that \$125 million is largely likely towards the discovery space?

Jonathan Hunt: Yes, discovery and development by deduction, that is reasonable.

Shaleen Kumar: So significant pushing at the same bucket, discovery and development and less towards manufacturing?

Sibaji Biswas: Yes.

Moderator: As there are no further questions, I would now like to hand the conference over to Ms. Chanderlekha Nayar for closing comments.

Chanderlekha Nayar: Thank you, Margaret, and thank you everyone for joining today's call. Hope we have answered all your questions. If you have any questions, please get in touch with me. Have a good day.

Moderator: Thank you. On behalf of Syngene International Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.