Syngene International's Q1 FY2021 Conference Call

July 22, 2020

Key Participants from Syngene International

- Mr. Jonathan Hunt: Managing Director and Chief Executive Officer
- Mr. Sibaji Biswas: Chief Financial Officer
- Dr. Mahesh Bhalgat: Chief Operating Officer

Moderator: Ladies and gentlemen, good day, and welcome to Syngene International First Quarter FY2021 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kartik Sankaran from EY. Thank you, and over to you.

Kartik Sankaran: Thank you, Aman, and good afternoon to everyone. Thank you for joining us on this call to discuss Syngene's Q1 FY2021 performance. To discuss the financial and business performance for the first quarter, we have on this call today, Mr. Jonathan Hunt - Syngene's Managing Director and Chief Executive Officer, Mr. Sibaji Biswas - Chief Financial Officer and Dr. Mahesh Bhalgat - Chief Operating Officer. Other members of the executive team are also present on the call. After the opening remarks, Jonathan, Sibaji and the rest of the team will be happy to answer any questions you may 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 risks pertaining to the business. The Safe Harbor clause indicated in the Investor Presentation also applies to this conference call. The replay of this call

will be available for the next few days after this call and the transcript will be made available..

With this, I would now turn the call over to Managing Director and CEO - Mr. Jonathan Hunt.

Jonathan Hunt: Thank you Kartik. Good afternoon and thank you all for joining this call to discuss Syngene's first quarter performance. I will start with an overview of the financials and then talk about the key highlights of the quarter. Sibaji will provide a more detailed commentary on the financials in a few moments.

Starting with our operational performance, overall the quarter played out in line with our expectations. And if you recall at the full year results announcement, I indicated that we expect to see some impact of COVID-19 in our first quarter due to the temporary suspension of operations in April. As it turns out, despite the temporary suspension of operations, we quickly made adjustments to our working practices, and this has allowed us to resume close to normal operations relatively quickly. We operated at near-normal levels for the last six weeks of the quarter and have brought most projects back on schedule. As a result, revenue for the quarter at Rs.437 crores was slightly down on the corresponding figure last year. However, revenue from operations was flat at Rs.422 crores, the difference being the interest on investments.

Through the quarter, we maintained good cost control which in turn helped to minimize any adverse impact on profitability due to the short operating shutdown. EBITDA for the quarter was Rs.140 crores against Rs.142 crores last year while PAT was Rs.58 crores against Rs.72 crores in the prior year quarter, a drop of 19% year-over-year and that is better than the 25% drop we originally guided towards the end of Q4. Sibaji will take you through the differences in his commentary.

Overall, like many companies, I think it has been a challenging quarter from an operational perspective. A temporary suspension of operations needs to be carefully

managed and the restart requires just as much care and attention. And that is without taking into account the human factor, where some anxiety and family concerns I think have naturally been on everybody's minds. This seems likely to be a factor for many months to come.

So, if we put COVID-19 to one side, I think it has been a busy quarter for us. Across the company, we continue to make good progress on our strategic priorities as well as continue to invest in core operational requirements like safety and operational excellence.

Like others, we are focused on adapting aspects of our business that are particularly impacted by COVID-19. During the quarter, we made good progress on implementing virtual audits for clients and regulators. We are in the late stages of preparing to offer virtual tours of our laboratories for new clients as well as trialling new online marketing channels to replace the face-to-face sales model that is the traditional norm.

We were pleased to receive an improved credit rating from CRISIL a couple of weeks ago following their annual review. Of course, the improved rating has a beneficial impact on our ability to raise funds. However, more importantly, the improved rating recognizes the work being done across the business to build robust processes, establish strong leadership, a loyal client base and a sound risk profile.

On the COVID-19 front, as I mentioned earlier, while operations were suspended, we implemented safety measures across our campuses to protect our employees as they came back to work. A robust business continuity plan ensured minimal disruption to our operations and we are currently operating at close to a 100% capacity.

We are also supporting the efforts of the Government in the fight against COVID-19 in India and we have a number of initiatives currently underway.

At a time when the number of COVID cases is increasing across the country, there really is an urgent need to make and distribute reliable testing kits using advanced technology to test and identify positive cases. To meet this requirement, our discovery research scientists developed an IgG ELISA Test. This is an advanced highly reliable serological test that identifies the presence of the SARS-COV-2 antibodies in blood samples and confirms if a patient has been exposed to the coronavirus. It has a capacity to test multiple samples in a single run and generates results within 3 hours. We have partnered with HiMedia to combine our science with their expertise in manufacturing and distribution to make the ELISA testing technology available for use in India.

In Development Services, we have entered into a voluntary licensing agreement with Gilead to manufacture Remdesivir for distribution in India and elsewhere as required. We are currently doing our due diligence on this project and will update you in due course on our plans.

Syngene has also tied up with the Centre for Cellular and Molecular Biology to jointly develop and validate a high throughput assay using a deep sequencing model. If successful, this model will be able to take somewhere between 5,000 to 25,000 samples in one run on next-generation sequencing platforms such as NextSeq or NovaSeq.

And then a final word, the RT-PCR testing facility that we set up on our campus by repurposing one of our research labs, has now tested more than 30,000 samples received from local hospitals in Bangalore, and we are doing that free of charge as part of our CSR activities.

So, to sum up, overall performance in the quarter was as we guided to. We delivered flat revenue year-over-year but with a better-than-expected performance on the profit line. Our operations are back to near normal and we expect to return to growth in the second quarter, assuming no material deteriorations in the current operating

environment. The upgrade to our credit rating is welcome and provides an objective perspective on the company's operations.

Let me hand over to Sibaji to run you through the financial details of the quarter.

Sibaji Biswas: Thank you, Jonathan, and a very good afternoon to you all. I am happy to take you through our first quarter FY2021 results.

We continue to operate in a very dynamic environment. The last time we spoke it was still early days of COVID-19 pandemic and we were hoping that the pandemic intensity would reduce from the end of the first quarter. As you all know, that has not been the case and the pandemic intensity in India and also in the United States which is our key market continues to rise. With this background, I am satisfied to come back to you with a set of financials which are similar, if not better, than our guidance in the last call. If you recall, we mentioned in the May call that due to the impact of the partial shutdown in the month of April, we expected Q1 revenues to be broadly at the same level as Q1 of FY2020 with a 25% year-on-year drop in profit for the quarter.

Revenue from our operations i.e., revenues excluding interest income, increased marginally by 0.2% to Rs.422 crores from the same period last year. This was led by continuing growth in Discovery Services and is supported by a steady traction in the Dedicated Centre business. This performance is despite the fact that we recorded only around 50% of our normal revenue in the month of April and is reflective of the strong growth levers we have built across the company. While the company is one of the Government designated essential services, we proactively took the decision to temporarily suspend our operations in the month of April to allow time for us to introduce safety measures on site. We returned to more normal operating levels for the last six weeks of the quarter and we are currently operating at over 90% of capacity, supported by multiple shifts.

During the quarter, we recorded interest income of Rs.15 crores which declined by Rs.5 crores compared to the same period last year. This is on account of the reduction in cash balance due to the part repayment of the ECB loan in March 2020 and also due to the reduction in yield rate on the deposits. As a result, the total revenue was slightly down at Rs. 437 crores compared to the same period last year.

During the quarter, raw material and power cost as a percentage of total revenue stood at 23%, down 340 basis points from last year. This is due to the change in sales mix in favor of Discovery Services and due to certain operational efficiencies in materials management. As you may know, Discovery Services tends to consume a lower level of raw materials than our Development and Manufacturing divisions. Also, in April, when operations were suspended, we had much lower levels of materials consumption compared to a regular month which also helped in reducing this ratio.

Let me now take a moment to explain other cost lines in the P&L. During the quarter, staff cost increased by 6% to Rs.140 crores as compared to Rs.132 crores in the same period last year. This increase is attributable to the increase in headcount due to new facilities that went live in the last year and currently we have around 5,000 employees in the organization against 4,600 employees same quarter last year.

The gross margin for the quarter stood at 45% as compared to 43% for the same period last year. This is an improvement of two percentage points and this is due to savings in raw material cost and other operational efficiencies, offset by some increase in staff cost.

Turning now to other expenses - which comprises of selling expenses, IT cost and general overheads - are flat at Rs.52 crores compared to the same quarter last year. As stated in the last call, safety measures undertaken as a part of our COVID-19 response has put an additional burden on our costs as we spent more on transport, personal protective equipment and staff welfare expenses to support multiple shifts to reduce density in our laboratories and other facilities. However, this increase was

offset by pro-active measures to reduce discretionary spending and savings in travel costs due to travel restrictions across the globe.

EBITDA for the quarter was almost flat at Rs.140 crores compared to Rs.142 crores in the same period last year. It may be noted that in spite of the fact that we lost close to half a month of revenue due to lock down, we turned in a similar level of EBITDA as in Q1 of FY 2020 with our EBITDA margin being maintained at 32% which is similar to margin we had in Q1 of last year. This is an outcome of carefully calibrated approach to spending during the pandemic period. At an underlying level, the adjusted EBITDA margin for the quarter, excluding interest income, is at 30% and this has improved compared to 29% for the same period last year. The delivery of EBITDA margin is an illustration of the resilience in our business during these trying times and our ability to maintain a high degree of operating effectiveness.

Depreciation stands at Rs.66 crores, which is a 39% increase from Rs.48 crores in Q1 of last year. As stated in the last call, it is mainly owing to the investments in the Hyderabad facility, expansion at our main Bangalore facility and completion of the construction phase of the Mangalore commercial API plant.

During the quarter, we recorded finance charges of Rs.8 crores, which includes Rs.2 crores towards our facility lease as per the new lease standard. This is compared to Rs.7 crores in the same period last year. We also recorded Rs.5 crores in income tax associated with interest income compared to Rs.7 crores in the same period last year.

As you may know, Syngene follows the practice of hedging all foreign currency revenues. The company recorded an exchange loss of Rs.3 crores in the quarter. This reflects the difference between forward rates versus the prevailing spot rate. The hedge rate was at Rs.74/USD as against the spot rate of Rs.75/USD during the quarter. If I compare that with the last year, same quarter, we booked a hedging gain in that quarter of Rs.2 crores.

The effective tax rate decreased to 12% compared to 17% in the same period last year. The decline in the effective tax rate is mainly due to the incremental depreciation impact in the tax books coming from the new units that have gone live in the second half of the previous year. In addition, the operating losses in the newly set up commercial API plant at Mangalore and decline in the interest income also contributed to reduction in the effective tax rate.

Profit after tax was down 19% to Rs.58 crores as compared to Rs.72 crores in the same period last year. Profit after tax margin is at 13% compared to 16% in the same period last year. This is better than our previous guidance where we expected around 25% year-on-year drop in Q1 FY2021 profits. As I mentioned before, we returned EBITDA almost in line with the last year and this drop in profit is entirely due to the high depreciation from the new facilities especially the Mangalore API plant.

Now, I will move to the Balance Sheet. During the quarter, we invested approximately US$13 million in ongoing capex programs. Of this, US$4 million pertains to the commercial API manufacturing plant, US$5 million was invested in Discovery Services, US$2 million in the Biologics manufacturing facility and the balance of US$2 million in the Dedicated Centres and Development Services. With this capital expenditure, our fixed assets currently stand at US$463 million, including assets under construction of US$30 million.

Syngene is a well-funded, financially secured business and as you can see, we continue to maintain a strong liquidity position despite the ongoing capex program. The cash generated from the operating activities after funding for the ongoing capex program resulted in a net cash position of Rs.395 crores at the end of the quarter which is an improved position from the end of March 2020. One of the reasons I would like to call this out for the current quarter was because of the strong performance in managing our working capital. We had very robust collections of receivables despite the pandemic situation. This is reflective of our premium clientele

- many of them major pharmaceutical companies - and their resilience to the pandemic.

In addition, I am very pleased to report that the majority of Syngene's suppliers now fall under the MSME category and we have made all payments to them on time without any delays, thereby supporting them in their hour of need.

Our investment plans, we are following a measured and a well calibrated capital allocation strategy this year with a stage-gate approach in our spending and investments, and we continue to prioritize our investments on projects where there is revenue visibility. We expect the capex spend to increase in the later part of the current financial year and are still targeting to spend a cumulative capex of US$550 million by the end of the financial year. However, this will depend on the progression of the pandemic situation and I will give you a better visibility on the subject in my next call.

We are pleased to inform you that the company's long-term rating has been upgraded from CRISIL AA to CRISIL AA+ with stable outlook. The short-term rating is retained at CRISIL A1+. It is an indication of Syngene's strong fundamentals, sound business model and a robust liquidity position. In context of our current strong financial position and the availability of low-cost foreign currency debt, we will continue to explore opportunities to optimize our capital structure.

At this stage, we do not see the need to reassess our guidance given in May and based on the current visibility of the order book, on a full year basis, we expect low double-digit growth in revenues. We expect PAT for the full year FY2021 to be at similar level as in FY2020. For clarity, PAT for FY2020 we refer to is without the one-time exceptional gain from insurance claims. As I mentioned earlier, we are going through a very dynamic period and this guidance should be seen in the context of what are clearly volatile conditions. We will continue to monitor the situation and keep you updated in the future call based on how the situation evolves over the next few months.

That completes my commentary on the results. We can now open the floor for questions. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, 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: The full year guidance remains with double-digit growth on the top line and flat PAT, and is this assuming the current capacity utilization of 90%? And just one clarification, if there is a second round of lockdown which is affecting us?

Jonathan Hunt: Super, I think you got that absolutely right, but I will let Sibaji to sort of restate it. The message is we gave you guidance last quarter. We are not changing that. We called the first quarter correctly, I think, we guided to flat on revenues, down on profit, I mean, maybe we got the profit a little bit wrong, we actually did better than the guidance, but not by a material amount. Our expectations for the full year remain unchanged, which is, we should return to revenue growth in the second quarter and that should then endure through the rest of the year and at the full year basis we should see growth. I will let Sibaji walk back through the specifics so that everybody has got it. But the message is no change. On your second lockdown question, I do not know, it depends. Where we are currently is the first suspension of operations for us. Remember, we are categorized as an essential service. So, we are absolutely free to continue to operate. But I think we have an obligation, given the type of work we do, and the society still needs new innovation, needs solutions to things like COVID-19 and it needs drugs to continue to be discovered, developed and manufactured. So now is the moment where I think what we do as an industry has never been more important. What that first suspension allowed us to do was put in what I think is a pretty good robust operating plan. And that gives me confidence that we can continue to operate through current circumstances. Now, there is actually a little bit of a localized lockdown as you know in Bangalore. And we are continuing to operate in that. We provide transport for our staff. We get them to

work. Many of them are working from home - those that are in roles amenable to that. The others are coming in. We have moved from general shift to shift working to decompress and give people more space for social distancing and those measures are proving effective. So, I think if the current situation endures, we will continue to operate at near-normal levels. But we will revisit that in light of experience. If things change, we will update you on that. Sibaji, a comment maybe just on the guidance.

Sibaji Biswas: Nothing much to add, Jonathan, but I will just repeat what I said because Prakash dropped off, we said we expect PAT for the full year FY2021 to be at similar level as FY2020 which is the same thing we said in the last call and we expect low double-digit growth in revenues. And this assuming that for the rest of the year we operate at the normal levels which we are doing almost, at this point. So, in case of situation remaining same and we hope that to happen, this guidance would hold.

Prakash Agarwal: And this is all rupee terms guidance in terms of top line double-digit?

Sibaji Biswas: Yes.

Prakash Agarwal: On the Capex, we made capex of around $65 million in FY2020, in CRO business (Discovery, Development and Dedicated). Just wanted to understand how much of it is operational and revenue generating in FY2021? And you said you are on track to do $550 million. So, assuming that there is another $70 million, $75 million in the CRO business this year, so how much would that be operational next year?

Sibaji Biswas: So yes, you are right, Prakash. We did invest that much of money in our Discovery, Dedicated and Development Services. And if you remember in the last call, I mentioned that when we invest money in our core business which are these three essentially, we look for an asset turnover of 1x to be attained between a period of 18-to-24 months. So, we are very calibrated, very careful in our investments, and we are quite confident that investment will generate the asset turnover as was

mentioned in the last call. This was the answer to your first part of the question. The second part of the question is that how much of the next $75 million, $80 million is going towards Discovery, Dedicated and Development services. So, we are not giving any specific guidance over here, but essentially the plan for the current capex is the expansion of our capabilities mostly in core capabilities although we have a little bit of capex also in the manufacturing to complete remaining activities of our API plant and the Biologics plant. But most of the money would essentially go for the expansion requirements for our Discovery, Dedicated and Development Services. And I said, we will continue to follow our stringent guidelines that we have set for ourselves on asset turnover.

Prakash Agarwal: So, looking at an asset turnover of 1x over 18-to-24 months, would it be fair to say that 0.5x would be achievable in 12-months, very roughly?

Sibaji Biswas: I leave that to your modeling, but common sense would say you can assume that way. It always does not work that way, Prakash, but what we hold good in our mind is that based on our pipeline visibility, we should be able to achieve 1x in 18-to-24 months.

Moderator: Thank you. The next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Just to get a better sense on the business and industry, my question really pertains to the molecules that are discovered in our Dedicated Centers or Discovery business. So, once the molecule is discovered, how likely is that the development and consequent manufacturing of the molecule would move to Syngene? That is question number one. And second, other than maybe lack of capabilities, what other possible reason could result in the customer moving the development or the manufacturing of the molecule to other CDMOs?

Jonathan Hunt: Yes, good question. Actually, in the dedicated centres, remember the nature of those is they are fully integrated, almost captive sort of centres that we

run integrating them back into the client's organization. So, if you take the longest running one of those, the dedicated center we run along with BMS. From their perspective, it effectively is, BMS's research hub in Asia and it sits alongside other research facilities around the world. And it is indistinguishable from their point of view from any other one of their research labs. It has the same look and feel, the same systems, it is fully sort of customized to effectively be a BMS facility run by us on their behalf. So, from that insight, you can see that the logic prevails that any of the innovations that gets delivered in that research center flows into the rest of the BMS organization. So, things like the next development stage, some of that comes to us, but manufacturing in the main flows straight through into BMS's own manufacturing infrastructure. So, I get the spirit of the question. The dedicated centres are probably the wrong starting point. If you look outside of the dedicated centres and looking to more broadly into discovery services which Kenneth Barr runs and Development Services which Jan-Olav Henck runs, those two organizations are much more likely to follow the path that I think your question suggests which is where we co-ideate or co-discover a molecule with a client or for a client that we can add value to by doing the downstream steps of that innovation, further development and ultimately through to manufacturing. So, I do not think it is a particularly strong driver of the dedicated centres business, but very relevant for discovery services, development services. As for percentages, I do not think I have got a number that would be helpful just because as you know the discovery development timeframe in the industry runs over up to 10-years, and we have not been offering that fully integrated service for long enough to have a big statistical base to answer it. On the last part of your question which is, other than capability, the reason why we could not actually deliver, what are the other reasons that it would flow to somewhere else - I think it is just all the usual factors, either people choosing to do that work in-house because they have already got spare capacity and capability, or they have already got a vendor that they have got a long-term relationship with. But we do have certain structural advantages as does any integrated CRO. If you do the discovery work and then you flow through into development and on into manufacturing, you can in some

ways lower the execution risk for the client because there are just fewer handover points. There are fewer opportunities for things to get delayed or slip in a tech transfer. So, there are good reasons in an industry. And here I am thinking of life sciences such as biotech and pharma where fundamentally innovation is patent bank and therefore everybody is very conscious that every piece of innovation has a sell by date and there is a patent clock ticking away moving quickly. Also, moving with great capability and competence is important. If we can integrate those internally, we potentially can be quicker, we can certainly minimize the number of moving parts. That is a bit of a long answer, but I thought it was more of a strategic broader question you were asking. Hopefully that helps.

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

Charulata Gaidhani: My first question pertains to the traction in Discovery Services. Are you seeing a visible difference in the pace of projects coming up?

Jonathan Hunt: Is there a context to that in our time period? I mean, during the first quarter, I think our Discovery Services business continued to perform very well. That is actually true. I think, over the last three, four years we continued to build momentum in that part of the organization. I think some of the changes that Ken has brought through around closer integration, acting as one single unit rather than four or five disparate units just starts to make more sense to our clients because they can see, if I take the answer I gave to the prior caller's question, that integration in practice and they can see those linkages. So, I think we are doing pretty well in Discovery Services. Was there an angle of the question around, is it being particularly impacted by the current COVID lockdown and sort of global restrictions on travel? I am not quite sure where you were coming from.

Charulata Gaidhani: Yes, it was pertaining to the lockdown globally. So, are you seeing less of outsourcing in the research activities?

Jonathan Hunt: Not measurably so, but I think firstly, it is difficult to measure. So, I cannot be a 100% certain that we would have that visibility yet anyway. And secondly, it is quite soon. What you are seeing though is that we are operating at near normal capacity levels. There is a matching set of challenges, problems, opportunities on the client side. They outsource for a reason because they want to get the work done. The pressure on them to get that work done and delivered has not diminished at all. And the point I made, most of our clients are in patent bound industries and therefore are very time sensitive with keeping their research projects moving. And I think out of those conditions, you see a reasonable amount of innovation. So, we are doing this call today using a whole bunch of technology that we were not using in the past, whether it is Zoom or Skype or MS Teams, you choose your platform, and we are seeing the same thing with clients. What we have seen during the quarter is virtual client visits, virtual audits. We have even seen regulators do virtual regulatory inspections. And if you put the technology there and we work very hard to do that, you can have a very-very good outcome from doing it. So, the world is digitizing because it needs to. I am sure as we come out of COVID-19, that will leave a legacy for many businesses.

Charulata Gaidhani: My second question pertains to how much of capex do you expect in FY2021?

Sibaji Biswas: I mentioned that in my commentary. We said that we will spend $100 million. Basically, as of March we were at $450 million cumulative spend and we guided that it would become $550 million by March 2021 and we are still holding on to that. First quarter was a bit slower, but then we hope to catch up in the next few quarters. And as I said, it will all depend on the pandemic intensity and I will come back with the updated guidance if required at all later, but at this point of time, we are still targeting to spend $550 million by end of March 2021.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Invesco. Please go ahead.

Nitin Gosar: I just wanted your thoughts and observations on how clients are seeing the overall Discovery Services as an avenue, keeping in mind that over the last six months we have seen pandemic and we have also seen profitability pool improving for a lot of pharmaceutical companies. Are they wanting to explore more projects, so maybe they will be required to adopt discovery research, outsourcing activity kind of route or are they wanting to curtail down on their already ongoing discovery projects or innovation projects? Just wanted to understand where we are right now.

Jonathan Hunt: Good question. I have not really detected a material change from the situation that you described which by the way I think is quite a positive one. I think you are right. You are seeing at a societal level, at an industry level, an increased willingness to put more of society's wealth and company's investment into innovation, into R&D for a whole bunch of structural reasons. Demographics, increasing global population, increased distribution of wealth, wealth parity, all of those things. What we do know, and it is a 50, 60-year long almost development journey around the world as nations get wealthier, as economies evolve, as populations grow, there is a higher demand for healthcare. And I think it is almost glacial in the strength with which it moves, and it is going in one direction. On the pandemic element of it, you have seen a real burst of energy I think globally in the scientific community. This is a disease that was not recognized or known at the beginning of the year. And we are halfway through it. We have already got a drug such as Remdesivir. There are others that are starting to come through. There are 90-odd parallel vaccine programs. There is an intensity to the collaboration between governments around the world, between industry, between corporates. And there is a lot and lot of science being done which really is the need of the hour. If you are looking for a more strategic comment, what I hope one of the lessons that we collectively learn as we come out of this, will be that the fundamental investments in innovation and science is the best way for the world to address these sorts of problems. It is a real lesson. The anti-vaxx for example is fairly quiet at the moment given the clamor that there is around the world for a solution that allows us to get back economies to be normalized and for people to get back to a normal way of living.

So, I am not detecting any material change. I do think it is a good environment where science is proving its worth.

Nitin Gosar: Sibaji, I think you commented the asset turnover is looked at around 1x from 18 to 24-months perspective given the pipeline visibility. I am not sure what was your commentary on pipeline in the past, but could you throw some kind of understanding of where we are on the pipeline? Any color on that would be helpful.

Sibaji Biswas: Typically, the way we operate is that we have at least two quarters of good visibility of our pipeline at any point in time. And future quarters thereafter are work-in progress whenever we are basically doing our capex planning. So, the case is very similar now. Good visibility of two quarters and the rest of the quarters work-in progress, and we have confidence that we will be able to take it forward in a nice way.

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

Manoj Garg: Just two questions. One on the manufacturing assets which you are putting across. So first on the API side, how should we look at it in terms of the visibility for those assets given like I do presume that we have a lot of molecules on the development side and given in which stage of clinical trials they are, if one has to look at it from a visibility perspective, would you like to put some color over there?

Jonathan Hunt: I think we gave quite a bit of an extensive commentary on this at the full year results. I think this year is quite a pivotal one for the enablement of Mangalore API facility. The real priority for the year is, having now completed the building stage which came in pretty much on time and on budget and to quality, is now to complete the qualification. So, the order of the hour through the rest of this year is qualifying the plant and then also starting to win those sorts of regulatory inspections and approvals. And that really is the general shape of it. I think the comments we have made, think of it as in start-up mode certainly for the rest of this

year. It should start to generate some revenue as we go towards the end of this year into next and then you are into a multi-year program of building that up. We will keep you updated as we go through that process.

Manoj Garg: The endeavor out there is basically to have the assets which we are developing in-house or probably we are open to get assets even as a second source of supplier?

Jonathan Hunt: Manoj, just to be clear, the facility is a CMO facility. Therefore, all of the assets that go through will be somebody else's molecule. Some of those may come from work that we have already done at the discovery stage and flows through from development into manufacturing, but it is more likely that those will be molecules, that you gave a good example, where you take on being a second supplier or you do work, sort of, for the clinical stage of manufacturing, then roll into the prelaunch for new molecules. But what we are not doing is developing our own pipeline of assets and then manufacturing those.

Manoj Garg: On the biologics assets which we are putting up, just would like to understand your perspective, are we primarily looking at projects on the biologics side or are we even open for the biosimilars project test?

Jonathan Hunt: Certainly, actively looking for projects. We have got a good capability there, a state-of-the-art facility. It is based on 2,000-liter scale disposable assets. It is probably best for medium sized products early in their lifecycle. But we will be very happy if there is a good fit to do biosimilars with it.

Moderator: Thank you. The next question is from the line of Sajal Kapoor from Unseen Risk Advisors. Please go ahead.

Sajal Kapoor: My question is a little medium to longer term. Our competitors like Lonza and Catalent are guiding that in the next five years biologics development pipeline would be almost 50%, if not more, of the overall drug development pipeline.

I know we have expanded both mammalian and microbial capacities recently. But what is your long-term outlook on the biologics manufacturing from Syngene's perspective?

Jonathan Hunt: I do not disagree with that. One of the nice things about the pharma biotech business is because of the highly regulated nature, all of the clinical trials or many of the clinical trials are put into the public domain and it is a little bit like looking at star light, the light that you see today left the planet quite some time ago. So, you can do the same thing where the industry is going scientifically. If you go into ustrials.gov, for example, the US government site that lists the ongoing clinical studies in the US, you get a good sense of where the industry's pipeline is going and the indicators on that for the last three, four, five years at least, maybe even longer, are that, if you split the world into chemistry and biology or small molecules and large molecules, then it is about a 50-50 split. And to some extent, if that is Lonza's and Catalent's view of the world, I absolutely agree with it and it is reflective in our strategy which is, to be very capable but, to some extent, platform neutral. Our intention from discovery to development and to manufacturing is to be able to bring the right tool for the job and sometimes scientifically at the discovery end, the right tool will be a small molecule and sometimes it will be a large molecule and the skill and the expertise is to know the difference, but it is to have both of them in our toolkit and we flow that logic all the way through to become an integrated and full scope CMO, CDMO, CRO, whichever one of the abbreviations for the industry model you prefer, but it is to be sort of platform neutral led by the science and that flows all the way through to manufacturing.

Sajal Kapoor: My second question is regarding the Mangalore facility. Though we generally call it as an API manufacturing unit, we would be manufacturing even the novel intermediates, that is patent-protected as well as the patent-protected specialty chemicals because I think reading through the old annual reports 2015, 2017, we were calling it out that this site will be manufacturing on patent

intermediate, specialty chemicals as well as the API. So maybe if you could just clarify that please?

Jonathan Hunt: I think your question describes the answer perfectly. But what I will do is maybe invite Mahesh. Do you want to talk a little bit about the current capabilities and what options we have got at Mangalore?

Dr. Mahesh Bhalgat: Referring to your question around the interest in using it for APIs as well as intermediates, the very straight answer for that is, we are actually looking and evaluating all of those capabilities. As you know, the government has also been on a specific mission for bringing in more and more in-house manufacturing both critical intermediates as well as APIs and this is where we are looking at positioning the use of our Mangalore facility to bring it towards full capabilities. And that is something that we will be looking at in the course of this year.

Moderator: Thank you. The next question is from the line of Lakshmi Narayana from ICICI Mutual Fund. Please go ahead.

Lakshmi Narayana: I was just looking at the firm over the last four years. We have almost doubled our revenues from almost Rs.1,100 crores to close to Rs.2,000-odd crores. Just to get an understanding of how much of that business came from the clients of 2016 and how much actually came from new clients? And then if I just again double-check on the existing clients of 2016, how much came from expanding our services? Whether it is like the new services you actually do. And as a follow-up of that, when you actually talk to the clients, whether the decision making is different when you actually give the suite of services - there is manufacturing involved, there is procurement involved. Just want to understand how that dynamic actually works.

Jonathan Hunt: Super question. I do not have all of the statistics off the top of my head. I would actually have to go back and sort of do a cohort analysis. But I am sure between the group of us, we will be able to put some sort of picture together that will explain it to you. What I would expect is that the majority of our growth will come

from existing clients. But it does not tend to be sort of linear. It is actually sideways expansion, which I think is the other part of what you talked about. So, you may do a single type of work for a client. They get comfortable with you. You become a qualified vendor. You build a good understanding of each other's operating approaches and systems. And to some extent, you earn their trust and confidence by delivering. And that gives you a platform to find other services that you can provide to them as you get a better understanding of their needs and they get a better understanding of your capabilities. And in Syngene's case, it is against quite a dynamic backdrop because while we doubled our revenue over the four years, I do not know how you would measure it, but it feels as though we have more than doubled our capability and our competence and our proven track record. It is a more sophisticated organization and that has continued to evolve in a positive way. So, we find even with our clients that we have known as longest and known as best, we occasionally surprise each other by being able to show them a capability or a competence that they did not know we had. So numerically, I would have thought most of the growth would have come from deepening and expanding the relationship with existing clients. There is a reasonable amount of churn. People come in; people go out. Maybe they only had one project. You do it for them. They do not have repeat work for you to do. But we are also seeing good progress I think on expanding the number of clients that we have certainly over the time period you described, sort of 2016 onwards. I think we have got a better footprint in medium-size businesses than we had in the past. We have got a more visible brand name since we IPO-ed. I think we are better known. And I think we have done particularly well in biotech field. Go back to 2016, we would have been strongest in large cap pharma. And I think today, we have added to that also medium size startup and venture funded biotech as well. A bit of a sort of painted picture of an answer rather than numerically heavy, but hopefully that gives you a sense of it.

Moderator: Ladies and gentlemen, that would be the last question for today. I now hand the conference over to Mr. Kartik Sankaran for closing comments. Thank you. And over to you.

Kartik Sankaran: Good afternoon. Thank you all for your time. If there are any further questions, we would be happy to get in touch and answer that. Thank you all once again and look forward to being in touch.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Syngene International, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

About Syngene

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