Syngene International's Q4 and year ended FY2021 Conference Call

April 28, 2021

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's Fourth Quarter and Full Year 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Divya Dhawan from EY. Thank you and over to you ma'am.

Divya Dhawan: Thank you Steve and good afternoon to everyone. Thank you for joining us on this call to discuss Syngene's Fourth Quarter and Year-ended FY21 Financial and Business Performance.

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 remark, 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 over the next few days after this call is over and the transcript will also be made available.

With this I would now hand over the call to Mr. Jonathan Hunt for his opening remarks. Over to you, sir.

Jonathan Hunt: Thank you. Good afternoon, everybody. Thanks for joining us on the call today to discuss Syngene's Fourth Quarter and Full Year Results for the year ending March 2021.

I'll start with an "Overview of the Fourth Quarter Financial Performance and Business Highlights" before summarizing the "Full Year Financials" and then I'll close with a year-end wrap up before handing over to Sibaji to give a more detailed account of the numbers and talk about the guidance for the year ahead.

Syngene's fourth quarter revenue growth was driven by a steady performance across discovery services, manufacturing services and dedicated R&D centers. Revenue excluding export incentives grew 13% over the

corresponding quarter last year. Despite the impact of the COVID-19 pandemic, we continued operating at near normal levels and careful management costs and resources enabled us to improve profitability during the quarter.

EBITDA for the quarter was up 4% to Rs.234 crores while profit after tax (PAT) excluding the exceptional gains was up 15% over the corresponding quarter last year and took that to Rs.138 crores.

Turning to the Business Highlights for the Quarter, a significant milestone was the extension of our strategic collaboration with Bristol Myers Squibb and that takes that out until 2030. This is the longest standing collaboration for Syngene. It's been in place since 1998 and significantly evolved over the years. In 2007, we set up a first dedicated R&D center with BMS and this is the largest research facility outside of the United States. We're proud of this role this dedicated centre has played in BMS research projects and the contract extension will take us into new areas of science and provides for a 40% increase in the number of dedicated scientists as well as adding some additional lab space. We've previously guided you to expect that our API manufacturing plant in Mangalore would complete its qualification activities by the end of the year. The facility has now been audited by the Indian regulatory authority and is now GMP certified.

We're going to focus now turns to book engaging with clients to showcase the new facility as well as start charting a clear pathway to key regulated market

approvals. As explained previously, the next phase of the plan will take some time and our current planning assumption is to trigger key market regulatory approvals over the next two years. In the meantime, we're in active discussion with clients regarding their commercial manufacturing projects. I think we've got multiple elements of the value chain now under one roof and it offers clients tangible benefits in terms of technology transfer, remove the downtime involved in moving compounds between service providers and that saves valuable time and increases speed to market. We do expect the number of projects in Mangalore to build steadily over the next two years and we've captured that expectation in our overall guidance. So we won't be giving specific guidance for the Mangalore plant, but we've included the growth in our overall outlook for the year ahead. Strategically, the key inflection point comes once we've gained those key regulated market, regulatory approvals and that we see being the priority for the next two years.

During the quarter, we also strengthened our small molecule development capability with the setting up of a new high potency API lab and that will help us in scaling up projects to the manufacturing phase.

Let me now spend a few moments reflecting on the full year and I think it's fair to say that it is an exceptional year in very many ways for many of us, one which as an organization I think we've really tested our resilience in the phase of great trying times and I'm enormously grateful for the commitment of our employees, strong leadership shown by the executive team during the year

and that's been disrupted in many ways the way we live as well as challenging supply chains, our ability to go to work and engagement with clients, all of which while creating new demand for research.

On the financial side for the full year, we've reported revenue growth excluding export incentives of 12% to Rs.2,180 crores and profit after tax (PAT) growth of 4% to Rs.382 crores. Sibaji is going to give you much more details about this in a moment.

Looking back over the year as a flat first quarter, we built momentum in the subsequent quarters throughout the year and we maintained strict financial discipline, I think good cost management which really allowed us to safeguard profitability. After the initial lockdown, significant resources were dedicated to finding effective solutions to combat coronavirus to resume our operations and keep our employees safe. We assured our clients that we are working at normal operating levels and really managed to get projects back on track quite quickly in that middle part of last year. We've extended a number of ongoing collaborations in the year, strengthened the integrated drug discovery portfolio, we expanded our footprint in Hyderabad if you recall as opening that center at the beginning of last year and we've added new clients to our roster and continue to invest and build on our digitization and automation initiatives.

Talking about our integrated drug discovery portfolio, SynVent, that's the platform for executing these projects, provides an effective and efficient

means to advance programs through target validation, translational interrogation therapeutic discovery and pre-clinical development and that's the both large and small molecules. With projects like this, we take an end-to-end approach starting with our client relationship by designing the research strategy and then leveraging our discovery, development manufacturing capabilities to cover the entire value chain. The benefits of the client include a faster seamless R&D process and it allows us to really bring together the full breadth of our resources. We've got 10 clients now working with us on IDD projects. One of the earliest was the strategic five-year collaboration we announced with 3DC and the scope was to collaborate on integrated drug discovery projects from target validation to pre-clinical evaluation.

During the year, we continue to advance molecules and compounds focused on oncology, cardiology, liver disease, Parkinson's, inflammatory disorders and also some orphan diseases as well. We also strengthened our position in the Animal Health sector. The discovery research team worked on quite interesting integrated drug discovery project for a potential treatment of inflammatory disorders in dogs and the formulations and analytical development teams developed what's a first of its kind multi-drug combination product for companion animals, again in a canine market and that's a product with global potential.

We're very proud that our scientists continue to deliver novel science which our clients have recognized by citing them as authors in scientific publications

and recognizing them on the patents. In the last quarter alone, 10 of our scientists were cited in globally renowned publications.

Over the last few years, Syngene's made systematic investments in digitization and automation to enhance productivity, improve quality, increase safety and in addition to improving the speed of delivery and reducing turnaround time, these automations also reduce manual intervention and a chance of errors and omissions.

Digitization initiatives now completed include a complete upgrade of our quality management system, a sophisticated document management system as well as the more widespread use of laboratory information management systems.

The lockdown and the associated travel restrictions really have impacted the physical audits of our facility both by clients and regulatory authorities. And to address this we implemented remote eye; this is the technology platform that allows in order to remotely view our facilities in real-time replicating what they would with a physical audit. And of the 47 clients and regulatory audits that we had in the year, 36 of those were done virtually, so technology there really closing a gap in what otherwise would be a COVID-related challenge.

We wanted to continue to build on our track record of successful accreditations and our operating units received ISO 27001 accreditation that

reflects the robustness of information security management systems that we've implemented across the organization.

Separately, the College of American Pathologists reviewed the CAP accreditation of the central laboratory and clinical development. CAP, the globally recognized quality accreditation standard and that assures a very defined set of operating parameters.

Syngene is the first company in India to receive CAP accreditation. We were the first to receive it in 2002 and since then we've successfully renewed that accreditation every two years. Throughout the year Syngene has continued to play an active role in the fight against COVID-19 by really applying our scientific expertise to develop solutions and bring some of our infrastructure to bear. We've collaborated closely with the state government and various industry bodies to share knowledge and best practice. I think I mentioned these in previous quarters but let me give you a quick recap. As an essential provider, we were allowed to resume operations quickly after the initial lockdown last year, that continues today. We've implemented a series of safety measures to keep our employees safe. We were operating at near normal capacity by the second quarter and that's continued till today. As you know, we're manufacturing Remdesivir under a voluntary license agreement with Gilead. To be clear, we don't really expect this to significantly boost profits, but I think it's a really important part that we can play in meeting the medical need that's so clear in India today. Our research scientists have

developed various proteins S1, RBD and N proteins that helps the diagnostic kit manufacturers and we're partnering with various organizations to fight COVID-19, these included collaboration with the center for study molecular biology to deliver high throughput next-generation sequencing with the National Centre for Biological Sciences to develop a novel human ACE 2 transgenic mouse. And with the foundation for the neglected disease research to facilitate SARS-CoV-2 in vitro and in-vivo research and that will help develop various monoclonal antibodies against COVID-19.

With the infection rates once again rapidly rising in India and we see that in other parts of the world, we continue to strictly implement safety protocols. Our campus-wide proactive employee testing exercise helps us maintain a low positivity rate and we've also started the process of vaccinating employees and their families. As of last week, all over 45-year-olds in the company had been offered a vaccine and starting from the 1st of May we'll be ready to go with the program to vaccinate all other staff, 18 and above, as per the governmental guidance limit. We'd be very pleased to do that to their immediate dependence.

So we look forward to the new financial year, our focus first and foremost will be on the smooth running of campuses and operations, keeping our staff safe. Hopefully, the benefit of the widespread vaccination will bring a degree of normality but I think most people are expecting that to be very much in the latter half of this year and the situation on the ground today is very-very fluid.

Operational excellence is a daily priority and we've seen the benefits of a very stretched approach to continuous improvement across all of our operations. Two thousand of our staff have been trained in lean process management tools. We've adopted the Japanese approach of Gemba Walk to ensure that managers are really on top of the day-to-day operational detail and as you'll hear from Sibaji, we plan to continue to invest in new technology to keep pace with client requirements and we continue to believe that the (IDD) the Integrated Drug Discovery approach adds value to both clients and our own company's research.

We'll be working hard to ensure that the investments in Mangalore start to deliver as soon as possible and we're also going to be investing in the expansion that we signaled with the long-term expansion of the BMS contract.

An important strategic addition in the coming year will be the expansion in our overseas sales force. I think getting ever closer to your customers physically, culturally and being within arm's reach of them really will pay dividends.

Before I end my address and hand over to Sibaji, let me summarize. I'm happy with the performance over the years particularly given the volatile market conditions that are prevailing globally. Our business divisions are performing steadily, and I think well at the moment, that puts us in a strong position for long-term growth. We continue to invest in capability and capacity building. Syngene's value proposition as a strategic research partner not just

a service provider but also adding value intellectually I think it's really been endorsed with the extension of our collaboration with BMS. And our operations are backed by a strong balance sheet and P&L statement that will drive long-term growth and sustainability.

So, with that, let me hand over to Sibaji.

Sibaji Biswas: Thanks, Jonathan and a very good afternoon to you all. I'm happy to take you through our results for the fourth quarter and the full year ended 31st of March 2021. This has been an unprecedented year for all of us. I remember when last year at the same time I was explaining the results of FY20 and was providing guidance for FY21, we were hoping that the pandemic would be contained by the end of Q1. Today as we reflect on a year that turned out differently than what we expected, we have certainly faced challenges but our results show that we have built the resilience to continue our operations through a combination of prudent management and disciplined implementation of COVID appropriate protocols in our campuses. Starting the new financial year we will keep in place all protocols and necessary precautions that Jonathan mentioned to ensure the safety of our employees at work which remains our topmost priority to ensure business continuity.

We have used our scientific expertise to support and contribute to the fight against COVID-19 and we will continue to do so as required. As of this month, we have restarted manufacturing of Remdesivir to ensure that we contribute to the stock required by our country to fight the guidance during the second

wave of COVID-19. The financial impact of this has been factored into the guidance which I'll talk about shortly.

During the year, we continued our efforts to strengthen our existing relationships with clients and added about 40 new clients taking the total counts of customers to more than 400.

We also achieved two significant milestones. Firstly, we made a good start to our journey in integrated drug discovery services with our platform SynVent and the agreement which we have made. Secondly, we signed the extension of our agreement with BMS until 2030. These are strategically important developments and paved the way for our future. The first of these is significant because it demonstrates a new way of thinking about the value that we can offer to our customers who need a fully integrated R&D solution. The second one, the 10-year extension of our contract with BMS has obvious financial significance. I am sure that I don't need to explain to you that having such a long runway as the basis of our relationship provides opportunities to plan together and invest in a wholly different manner.

Let me now run you through the performance for the quarter first and then the full year. The performance for the quarter has been good; our revenue from operations excluding export incentives increased by 13% for the quarter compared to the previous year and was also up by 13% compared to Q3, reflecting a strong momentum in the quarter. Growth was driven by steady performance across discovery services, manufacturing services and the

dedicated centers. After accounting for export incentives received in the prior year, our reported revenue from operations increased by 8.5%. We have applied prudence and not accounted for any export incentives in FY21 pending the government's clarification around the service export incentive scheme although the export support policy announced vide notification No. 57 dated 31st March 2020 implied the continuation of this scheme.

The BMS contract extension provided for 40% expansion of BMS scientists. This quarter saw part of the BMS expansion materializing and we expect this expansion to continue during 2021 and continue during next year. The BMS dedicated center now has more than 600 scientists actively engaged in cutting-edge discovery science.

I'm also happy to announce that we started manufacturing certain stages of small molecule API for a client from our Mangalore manufacturing plant which was part of a larger project that Syngene executed. We now have the plant GMP qualified and are working on a multi-pronged approach to obtain regulatory approvals for the plant. Obtaining regulatory approval from key regulators such as US FDA or EMA would be an important step towards being able to manufacture high value molecules in the Mangalore plant. Until the approvals are obtained, we will continue to manufacture products that suit the plant operations so that we are able to cover an increasing part of our cost base. We further expanded our laboratory capacity in Hyderabad which went live recently. We now have close to 300 scientists working from Hyderabad.

Additional expansion has been planned in Hyderabad in waves and we'll be adding new capacity almost every quarter from now. We are seeing encouraging trends in business growth and the proposed expansion in Hyderabad will provide the infrastructure needed to capture this growth.

EBITDA margin for the quarter was close to 35% compared to 36% last year and 32% in Q3. The marginal drop in reported EBITDA margin is again due to the absence of export incentive which in the past has benefited the margin. The underlying EBITDA margin adjusted for export incentive and other income is 33% compared to 31% in the same period last year and 30% in Q3.

Our raw material cost for the quarter has marginally increased from 25% of revenues to 26% due to a shift of mix of our business towards manufacturing, especially biologics. However, various efficiency measures improve the underlying material cost effectiveness as you can see from the annual figures.

Let me now take a moment to explain the movement in other cost lines in the P&L. During the quarter, staff cost increased by Rs.19 crores to Rs.183 crores as compared to Rs.164 crores in the same period last year. The increase in headcount in our existing and new facilities that went live in the last 12-months helps driven the majority of the 11% increase. Currently, we have about 5,400 employees in Syngene against 4,900 employees a year ago.

Turning now to other expenses which comprises of selling expenses, IT cost and other general overhead, they are up by Rs.7 crores year-on-year

compared to Rs.89 crores in the same period last year. The rise in these expenses is primarily attributed to new way of doing business during the COVID-19 times and increase in cost associated with maintaining health and safety protocols. EBITDA was at Rs.234 crores compared to Rs.225 crores last year. Underlying EBITDA increased by 19% and was at Rs.215 crores compared to Rs.181 crores last year, reflecting strong operating leverage. Depreciation stands at Rs.70 crores which is a Rs.8 crores increase from Rs.62 crores in the same period last year. The increase on a year-on-year basis is mainly going to the investments in the Hyderabad facility, expansion at our main Bangalore facility and depreciation for the full period for the Mangalore commercial API plant as against part of the period last year.

Now, moving to the impact of our currency hedges, the company recorded an exchange gain of Rs.5 crores in the quarter versus a loss of Rs.1 crore last year. This reflects the difference between forward rate versus the prevailing spot rate. The hedge rate was at Rs.74/USD as against the spot rate of Rs.73/USD during the quarter.

Profit after tax before exceptional gain on insurance receipt was up 15% to Rs.138 crores as compared to Rs.120 crores in the same period last year, reflecting an overall strong performance for the quarter.

This momentum during the quarter with strong performance across dedicated centers, discovery services and manufacturing has helped us meet our stated

guidance of low double-digit growth in sales and revenue from operations for the year.

As mentioned before, the government has not notified service export incentive scheme for the financial year 2021 though the export incentive policy was extended. So we have applied prudence hence not to recognize any benefit from this year.

Continuing with the full year performance, before factoring the export incentives, revenue from operations for the full year was at Rs.2,180 crores, up 12% against last year. As you recall, Q1 was a tough quarter as we saw the impact of the temporary suspension of operations while we established our COVID safety protocols and learned to adapt to the COVID-19 pandemic. Excluding Q1 which has seen flat year-on-year revenues, underlying revenue from operations in the last three quarters grew 14% year-on-year as compared to the similar period last year.

For the full year, our EBITDA is up 5.3% to Rs.736 crores, a reflection of the improved operating performance in the business. If we exclude interest income and export incentive, our EBITDA has improved 21% year-on-year as we have made significant changes to our operating models, keeping costs down while benefiting from the increased scale of operations.

On a full year basis, the increased value of our fixed assets has resulted in a 25% increase in depreciation to Rs.274 cores versus Rs.219 crores in the same period last year.

Foreign exchange gain for the full year was at Rs.17 crores versus Rs.14 crores last year. Overall for the year, our profit after tax was up 4% to Rs.382 crores versus Rs.366 crores last year before an exceptional gain from an insurance receipt.

Let us move to some of the other items such as CAPEX and cash flow. Our investments for the year were at US$65 million as a part of the ongoing CAPEX program compared to our CAPEX guidance of $100 million during the year. Lower CAPEX spend during the year is partly due to COVID-19, but also due to the additional capacity released due to the introduction of multiple shifts especially in the discovery services. We have rightfully delayed the CAPEX spending to the next financial year and the balance US$35 million is included in our CAPEX guidance for the next year. Of the total CAPEX for the year $10 million pertains to the commercial API manufacturing facility, $20 million was invested in discovery services, $10 million in the biologics manufacturing facility and the balance $25 million in dedicated centers, development services and common assets.

Our balance sheet position is healthy, and we have a strong liquidity position. As promised at the start of the year, FY'21 was the year where we focused on preserving liquidity.

I'm happy to report that despite the pandemic we had the highest ever collection during the year and reduced the overall outstanding days of receivables by six days. This along with carefully calibrated spending has resulted in a strong net cash balance of Rs.648 crores at the end of the year. This gives us the confidence as we move into a new financial year with a plan to drive higher growth of our business in the future, taking advantage of the attractive growth opportunities that our industry currently offers.

Now, moving on to the guidance for the financial year '21-22, the fundamentals of the global biopharma industry remains strong. There is good momentum of new chemical entity and new biological entity approvals by the regulators, underpinned by a strong pipeline of drugs under early stage discovery and development. The continuing drive to reduce cost of drug discovery and the increased productivity is expected to increase outsourcing further with significant interest in the integrated drug discovery and development model. On the manufacturing side, growing demand for biologics, the capital-intensive nature of the business and the complexity involved in pharmaceutical manufacturing is further driving demand for outsourcing. We believe Syngene is well-positioned to capture many of these market opportunities.

As we enter the new financial year we have extended and expanded our dedicated R&D centers through our collaboration with BMS where we expect

to increase R&D scientists by another 20% in a phased manner on top of the 20% expansion that happened by the fourth quarter.

We have laid a strong foundation by expanding our laboratory footprint beyond Bangalore with the ongoing expansion of capacity in Hyderabad. We have now launched Phase-III of our expansion which will allow us to build additional capacity for another 300 scientists on top of 300 scientists who are already working there. We expect the expansion to be fully utilized within a year.

In biologics manufacturing, we have added capacity to our mammalian capabilities with one additional 2,000-liter reactor. Our new 500-liter microbial facility gets added to our microbial technology platform further enhancing our suite of offering. This will help us cater to the production of a wide variety of biologics drugs ranging from anti-cancer to hormonal disorder therapies and many others. We have already seen promising indications from customers that will drive our capacity utilization.

This year we'll also start investing in a viral vector development and manufacturing capability that will cater to clinical and commercial supplies of viral vectors to be used for cell and gene therapy. The manufacturing facilities will have scale of operations up to 200 litres by reactors which can be further scaled up based on business need.

We are being supported by Biotechnology Industry Research Assistance Council or BIRAC under the National Biopharma Mission for this project. BIRAC has provided us with a grant to park fund this project to support our endeavor to be at the cutting edge of manufacturing technologies for products in the area of cell and gene therapy and establish some really landmark scientific capabilities within India. The first phase of this plant would require around 200 crores of investment and the plant will be ready for operations in two years.

In the API manufacturing facility in Mangalore, as mentioned earlier, we have completed the qualification stage and started manufacturing. We are now working on a multi-pronged approach to obtain regulatory approvals for the plant while adding clients and projects to monetize the asset. As mentioned earlier, we expect an asset turnover of 1x for our manufacturing businesses over a period of around five years from investment.

One of the significant impacts of the pandemic has been the relatively slower buildup of new client orders in the past 12-months due to the lack of global travel trade shows and direct contact with customers. We are now seeing a rebound in demand.

But with the six to 12 months sell cycle it will take a couple of quarters for this demand to reflect in sales. We are also in the process of strengthening our on-ground sales presence in certain key markets like US, UK and Europe as we recognize the need to have senior sales capabilities in these markets. We

believe this will lay a foundation for being closer to our clients driving stronger client relationships and helping us gain market share.

Let me now share our planning assumptions so that you can put the guidance into context. While the second wave in India is extremely intense, we believe that our existing COVID protocol and the employee vaccination program will help us to maintain near normal level of operation. If the second wave does not cause significant additional business disruption, for example, through lockdown, supply chain challenges or significant employee absenteeism, the focus of FY'22 is to drive a higher level of business growth. Even with a hangover of lower pipeline build up in the first part of last year, we would expect revenue from operations to be in the mid-teens in the financial year 2022. As the year will focus on investment-led growth with expansion and capability additions across core businesses and building our sales presence in key markets, the margins are likely to get moderated during the year but expected to stay around 30%. We expect profit after tax growth to be in single digit considering the impact of depreciation driven by additional CAPEX.

Our CAPEX plan is expected to be between Rs.750 crores and Rs.900 crores for the financial year 2022 and this includes the unspent CAPEX rollover from the previous year. The investment will primarily focus on expansion across the business, capability additions, technology and automation and hence the big part of this CAPEX will lead to improved revenue generation in the future years.

We are now entering a new investment cycle with a renewed confidence about growth opportunities but in view of the ongoing pandemic we will take a calibrated, stage-gated view on investments as has been the case in the past 12-months.

Our guidance assumes a moderate pandemic intensity as I explained. We are closely monitoring the situation and if circumstances change, we will respond as the situation warrants. However, this would mean that we'll come back to you with an update on our guidance every quarter based on the pandemic situation on ground and in our key markets.

This brings me to the end of my remarks. So let me summarize the results for the company for this quarter. Despite the level of uncertainty created by the pandemic, we tracked well against our guidance on both revenue growth and PAT. Overall, the structural growth drivers for the industry remain very strong, we will continue to invest for expansion across our core businesses and to strengthen our capabilities. As an organization, we have invested in new technology and embarked on some transformative projects across digitization, commercial and sales, the benefits of this should accrue in the coming years to justify the regular investments that we have been making. Our balance sheet is healthy, and we have a strong liquidity position to support us. This should help us as we invest for growth in the coming year.

With this I complete my commentary on the results. We can now open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Alankar Garude from Macquarie. Please go ahead.

Alankar Garude: I wanted to understand EBITDA margin guidance of around 30% better. In the fourth quarter even if you adjust for export incentives and other income, we were at more than 32% margin. Sir, firstly, is there some seasonality in the fourth quarter? And secondly, despite lower under recoveries in the Mangalore facility and also likely operating leverage from the CAPEX we have done over the past two, three years, why do you think margins would be just around 30% in FY'22?

Jonathan Hunt: It's a good question. I'll let Sibaji comment on that in a moment. I would take a reflection,if you go back and look at our business over five years, 10 years, you've seen that the EBITDA margin has been dialed in a low 30 range. Certainly we've always commented that's the sort of range we're comfortable in. It varies a little bit depending on business mix and the rate of investment in the business. Secondly, that's a margin structure, when you put it in a context of our global peer group, it looks good. Peer group has been medium and above towards the upper quartile and has been on a sustainable basis. Thirdly, it creates shareholder value. So it's a margin structure that allows us to create economic value on a sustainable basis. So I'm quite happy with operating in that range. I'll let Sibaji maybe comment on the quarter-

versus-quarter variance and why we think the year ahead is more 30% than where it was in the fourth quarter. You're right in the fourth quarter there always is a little bit of seasonality particularly around our manufacturing and development-led businesses, the others tend to not be that seasonal and you see a spike at the year end. Never quite sure why, there's no industrial logic for it, but it's been in our business forever that the fourth quarter tends to be a busy one. Anything to would add beyond that Sibaji?

Sibaji Biswas: I second your opinion. I think, Alankar, good question but if you see across the global peer group, 30% is a very respectable upper quartile kind of margin from the business we are in. In terms of seasonality, yes, we have seen this trend, generally Q4 has the strongest EBITDA margin, we have seen that last year, we have seen the same thing this year. So that seasonality does exist from manufacturing, development services being the main contributor for that. A bit of a dilution which I explained in my commentary. This year although we started with a bit of a drag on the pipeline as we are coming out of COVID year, we still want to push growth and when you push growth you are investing in expansion, you are investing in capabilities across different functions and when you do that there is some moderation of margins. It's not big moderations, we are still talking about staying in the range of 30% to 32%, so we are talking 30% this year and last year has been 31% but it's actually investment for growth because we want to now push for a higher level of growth in the business.

Alankar Garude: My second question is in terms of client behavior, commissioning of new projects and your own sales, what has been the key learning for the past one year and have you identified any areas of improvement?

Jonathan Hunt: Everybody go digital; you've seen the whole world adapt to life on a Zoom call or a Teams call, whatever your favorite platform is. We will see how much of that endures. I think quite a lot of it will because in any industry all the way around the world we've found out that lots of things can now be done very effectively, people working from home or remotely or using digital and not quite so much travel is needed. That's probably a good thing for the planet long term. So I think that was one learning. We are really grateful that we've invested in some of those mobility, digital technologies earlier, you've seen us switch some of our advertising marketing budget away from plane tickets as it were to the digital channels. I don't know if you follow the company on LinkedIn and other social media platforms, YouTube, etc., you can now see much clearer, stronger digital brand presence for Syngene. Also, if you read a lot of the scientific trade press or whether it's scientific literature magazines publications or websites, you'll see a much more visible digital presence. So I think those would be some of our reflections. The other bit is being close to your customer having a good local connection anywhere in the world is a benefit and that's one of the areas where you'll see us invest a little bit

more in the year ahead. It's where some of that margin compression is coming from, we're going to hire a few more scientific and salespeople in the US, in Europe in other countries so that they're close to the customers and part of those scientific communities.

Moderator: Thank you. Next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

Tushar Manudhane: Sir, just on this Odevixibat where we had a partnership from pre-clinical to regulatory filings, first of all, just a clarity whether this partnership is going to get extended for the commercial manufacturing as well as and when it gets approved?

Jonathan Hunt: Super question. Don't think we know the outcome of that because they don't know the regulatory outcome. So we can update you as and when that happens. But really proud of the work we've done, the end state disease that particular drug and that partner is focused on PFIC is quite a challenging disease in children, there are no medical treatments for it today and I think that if they can successfully get that approved into the market in various countries around the world, medically they would have done something good, scientifically they would be good in supporting them and it's a good example of integrated end-to-end program over many years. That is a sign of the value that Syngene can now add but maybe five or ten years ago we wouldn't have done in the same way. So good, almost showcase example of some good work

and some good science. On the specifics of manufacturing, don't know because we're still in conversations with the client and we'll see how they get on with their regulatory approvals.

Tushar Manudhane: Because I presume the PDUFA date is quite near, I mean in July '21.

Jonathan Hunt: I think that you'd have to direct that to their IR team.

Tushar Manudhane: Secondly, while we've restarted manufacturing of Remdesivir, so if i have to understand the core business guidance, maybe Remdesivir could be just an FY22 opportunity. But if I exclude Remdesivir opportunity, then what could be the guidance on the core business?

Jonathan Hunt: We won't break that out, but I think we gave you quite a hint in my comments and I'm not sure, I think Sibaji may have made one. Remdesivir for us, there are seven companies that have got voluntary licenses that are supplying the market in India. All of us are responding to the urgent need today and doing whatever we can. Syngene's manufacturing capacity is amongst the smallest of those companies, we're doing everything we can, collectively the seven companies plus Gilead, they were going to send some 500,000 vials to India. So there is a response but we're at the smaller end of the manufacturing capacity, we are less assured doing everything we can. It's as much a scientific and CSR contribution as it is, it's not a main driver for our business. So I wouldn't pass a difference on the guidance. Mid-teens revenue for the year,

but that's a reflection of our core business which is early stage discovery research development and then into some manufacturing.

Moderator: Thank you. The next question is from the line of Prakash from Axis Capital. Please go ahead.

Prakash: My question is like we reported 8% YoY growth in rupee term. So, what is the constant currency term growth and what would be the guidance, in CC terms or is it rupee terms guidance?

Sibaji Biswas: Prakash, thanks for the question. When you talk dollar growth, we are talking essentially sales and not the other operating income or interest income, that grew by 12% year-on-year. So effectively that's driving the 13% growth from operations. The 8% that you are talking about is more optics because last year we accounted for export incentive, this year we did not account for export incentive and that's by design because we want to be conservative in our financial reporting and accounting practices. Take the interest part out, we grew 13% quarter-on-quarter, of which 12% quarter-on-quarter is purely US dollar terms.

Prakash: And your guidance is also in dollar terms?

Sibaji Biswas: Our guidance is in rupee terms, Prakash. We have always given rupee guidance, so we are not changing that position.

Prakash: One more clarification, on the PAT guidance that you have given that is on the reported PAT or the adjusted PAT excluding the one-off?

Sibaji Biswas: That is on Rs.382 crores which is basically excluding the insurance receipts. So last year also we had insurance receipts, Prakash, this year also we had insurance receipts. So we do not consider that as part of our profit after tax. So all our guidance is in rupee terms.

Prakash: You will grow high single digit?

Sibaji Biswas: We will grow single digit, that's what we said.

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

Tarang: I have three questions; one, Jonathan in your conversations with your dedicated research customers, would you say you're witnessing a material positive change in their attitude and perhaps more willingness to outsource more R&D work to a player with strong vintage and credentials versus how they were looking at it maybe three to five years back? The second is, India seems to be gaining traction as a R&D destination for a host of global pharma and active majors. Are you witnessing any challenges in recruiting personnel with desired skill sets at a desired pay? And the last one would be what proportion of your $300 million revenue would be from non-pharmaceutical customers and what was this figure maybe in 2018?

Jonathan Hunt: Yeah, super set of questions. On your first one, I'd broaden the question not just around the dedicated plants but all of them, depends how much of a historical view you want. When I joined the pharma industry which was 30-years ago, it would have been anathema, for any R&D head to consider doing any science other than in their own labs, the philosophy globally was that's what a pharma company does, we do science. Everything else you could maybe partner or outsource but at the heart of it if you're a fund manager, you don't outsource your stock picking, you have your own investment thesis and I think heads of R&D felt like that 20, 30 years ago. Today, they're much more likely to take a view that they have to control the value chain and the decision-making about the science. But they can use partnerships. I don't even think they think of it as outsourcing anymore. That's got a sense of outsourcing and India well knows this if you think about the IT services industry for a long time, that industry grew because you outsource simple repeatable things for a scale or labor cost arbitrage. Today, they partner around sophisticated end-to-end solutions that add value and in many ways the IT services sector starting to know as much or more than their customers, they are the expert, you go to consult. And I think we've got a similar sort of dynamic going on in our industry and in a company like Syngene. The marginal customer today wants to know, not that we can do it, we can follow instructions if they tell us how to do some science. But they want to know what we think and that we add value by critiquing and challenging their scientific ideas, we bring our own to the table. So that's the opportunity and it's also the marginal driver of why

I'm optimistic that there's lots of opportunity for long-term growth- 5, 10, even twenty years though because it's about the intellectual added value that you can bring which segues perfectly. I think into your second question which is can we as a business with the major of our foothold in India get the talent. And I think India does scale of talent fantastically, there are a few places on the planet where you can hire the volume of masters and Ph.Ds. But within that you have to be ever more selective, it's not just about a university sort of education, it's about the intellect that comes with that and the added value. And again I think India's got great potential, but it also allows us to cast our net that much widely. If you look at the leadership team, if you could see inside, within the organization more you'd see that we're much more of the united nations of scientific talent than we were five years ago or ten years ago, there may be Indians by birth but have been educated in India, done post docs or education in the US maybe spend some time in the US or the European industry and then come back to India. So we're much more global in that talent footprint but for now I think we're getting the talent we need but we're also going up business-wise of that sophistication, integration curve. So the comments that I made about SynVent those 10-clients that are doing fully integrated drug discovery programs with us are a good indicator of where the industry is going and where Syngene is going. Sibaji, the last question.

Sibaji Biswas: So if I have understood the question how much is from large pharma and how much is from non-pharma bit like institutions and biotech. So traditionally we have been a trusted partner for large biopharma companies and still most of our revenues come from large pharma companies. Having said that, the non-large pharma part of our business is expanding pretty quickly because there's a lot of excitement over there, we have made good progress in the recent days and we expect that part of our revenue to grow in the coming years. If you see strategically, SynVent is also going to address a lot of that, because the expectation is for integrated research from those companies and we are strongly placed to address that, but at this point, still most of our revenues come from large pharma.

Jonathan Hunt: Sibaji, I don't know if you've got the number but other sectors if you add it together -animal health, chemicals industrials polymers any of those others where we've got small footprints, but they occasionally want the sophisticated science we do. What would that be?

Sibaji Biswas: Around 10% of our revenues come from that.

Moderator: The next question is from the line of Arpit Shah from Stallion Asset. Please go ahead.

Arpit Shah: I have a couple of questions here. What was the order book look like for the API plant in Mangalore facility?

Jonathan Hunt: As I sort of cover in my comments, the key strategic pivot point for us actually is the regulatory pathway for key regulated market approvals, it gives us quite good modeling assumption there which is we think that'll happen over two years and beyond that is the real value creation opportunity for that plant, inflection point between now and then we'll cover the API opportunity within the broader guidance we give. So we've given a revenue growth outlook for the year mid-teens, that includes the growth contribution from all businesses including the operating unit in Mangalore. So I wouldn't go beyond that and pass it out.

Arpit Shah: If you're reinvesting in the newer facilities, what would be your typical hurdle rate or typical ROIC that we are targeting from those plants?

Sibaji Biswas: So essentially every project that we invest in, we are very disciplined about our investment approach and we do not invest unless we see a return which is comfortably above the cost of capital so has been the case in our Mangalore manufacturing plant. In terms of our guidance, we have always mentioned that over a period of five years and more, it will return an asset turnover of one, but typically the return generation period for an investment like that

extends over 15, 20-years. So that's how you have to look at this investment. But direct answer to your question, it's comfortably above the cost of capital for us.

Arpit Shah: And today like Syngene is like a 2200 crores company, right, and we have pivoted from research to development to manufacturing. So where do we see ourselves in the next five years? We are only Rs.2200 crores revenue company. Can we move to like say a billion-dollar revenue company in the next five years?

Jonathan Hunt: it's a fantastic question. I think you you'll understand why I'm going to resist the temptation to give you a five-year earnings outlook. I was quite happy to give you a revenue guidance for the year ahead. I'm not sure if we pivoted, I think we've integrated, I don't see the future potential in discovery services diminishing at all, it's not a reason to pivot away from it. So, it's another notion of manufacturing is the future, discovery was the past quite the opposite, I think the discovery part of our business is growing fantastically well, it's differentiated and had some real runway, then development and then manufacturing, together they create an integrated value chain and that allows you to match actually the way our customers in biotech and pharma operate integrating those pieces. So you can serve them end-to-end. So, it's not one part is old, one part is new, they all work together well in concept.

Arpit Shah: So my question was pertaining to where are the new places where our opportunities can expand going ahead in the next ones?

Jonathan Hunt: Okay, but I sort of thought I answered that in the discovery research, integrated drug discovery, the combination of chemistry, biology, research, informatics, finding new molecules taking those new molecules into the development space, finding and identifying formulations, manufacturing processes and ultimately then going all the way through to making the drug at a clinical stage to support clinical trials and potentially being an API manufacturer or biologics manufacturer to support the commercialization, it's a full offering. Sibaji also gave some hints around where we are with our CAPEX. Over the next two years we're going to add a capability which was the cell and gene therapy, that'll take us two years to build that, that's quite a breaking area. I think if you look into the discovery science space Protax, as an area protein degradation is a scientific capability, one that is a hot area of science something that we're doing well and with some good experience.

Arpit Shah: Some of your peers let's say in China or some places like in Europe they're growing at around 30%, 40%. 50% for quite a few years. The opportunity is quite large for Syngene engine and for other players as well. What is actually stopping us to hyper scale?

Jonathan Hunt: I'm not sure if I fully agree with the premise of your question. I think you'll find that the Chinese peers are growing at 25%, 30% high rates, many of those are also manufacturing businesses with more scale so that tells you the strategic path going down has some opportunity and they are supported by a phenomenal domestic market, the Chinese pharma market has now become the second largest in the world and I think it's on a trajectory to close that gap with the value of the US market. It surpassed the Japanese domestic market, the German, French, Spanish, British, all of those that were traditionally the largest pharma markets in the world. You said that you've fairly seen a similar sort of growth on the European competitive of ours. You might have seen it with one or two when they've made major acquisitions or inorganic growth but in the main the European peer group and the US peer group is trucking along when I look at it in high single digits to low teens and on a five year view or ten year view Syngene's comfortably outpaced that level of growth.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference over to Ms. Divya Dhawan for closing comments.

Divya Dhawan: Thank you, everybody for your time. If there are any further questions, please get in touch with us and we would be happy to answer them. Thank you once again and look forward to engaging with you as we continue our journey. You may now disconnect your line.

Jonathan Hunt: Thank you.

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

About Syngene

Syngene International Ltd. (BSE: 539268, NSE: SYNGENE, ISIN: INE398R01022), is an innovation-focused global discovery, development and manufacturing organisation providing integrated scientific services to the pharmaceutical, biotechnology, nutrition, animal health, consumer goods and specialty chemical industries around the world. Syngene's clientele includes world leaders such as Bristol-Myers Squibb, Baxter, Amgen, GSK, Merck KGaA and Herbalife. Its innovative culture is driven by the passion of its 4240- strong team of scientists who work with clients from around the world to solve their scientific problems, improve R&D productivity, speed up time to market and lower the cost of innovation. For more details, visit www.syngeneintl.com.

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