

## Syngene International's Q2 FY2021 Conference Call

October 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's Second 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 E&Y. Thank you. And over to you, sir.

**Kartik Sankaran:** Thank you, Nirav, and good afternoon to everyone. Thank you for joining us on this call to discuss the Financial and Business Performance for the Second Quarter and Half Year.

We have on this call today, Mr. Jonathan Hunt -- Syngene's Managing Director and CEO; Mr. Sibaji Biswas -- CFO; and Dr. Mahesh Bhalgat -- COO. Other members of the executive team are also available to answer any questions you may have.

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

**Jonathan Hunt:** Thank you. Good afternoon, everybody. Thank you for joining us on the call today to discuss Syngene's second quarter performance. I will start by giving an Overview of the Quarter's Financial Performance, then move on to some of the Operational Highlights, and Sibaji, of course, will take you through the Financials in more detail in his remarks.

Overall, Q2 was a good quarter with the performance for the quarter in line with our expectations that we set out last quarter and showing a strong return to growth. With operations restored to near normal operating levels, we are delivering on time with existing projects and have recovered the delay to projects impacted by the short suspension of operations in the first quarter. So, overall, second quarter feels like we have got back on track.

Looking at the P&L, our continued focus on improving operational efficiency, along with good cost control measures has had a positive impact on the quarter's profitability. In terms of numbers, second quarter revenue from operations was up 12% to Rs.519 crores while EBITDA came in at Rs.169 crores and PAT was at Rs.84 crores.

Taking a broader perspective, it looks likely that COVID-19 will continue for some months to come, and therefore, we will continue to have the potential to impact our operations and those of our customers for some time to come. That said, I think we are coping with COVID very well. I am very pleased by the commitment shown by our employees and accommodating new working practices, both onsite and through work from home, and this has allowed us to get client projects back on track and seeing a return to smooth operations. Today, we have settled into a new operating rhythm. I think we will find effective ways to engage with customers, regulators and other stakeholders.

We are also proud of the work that we have done through both CSR and our science in combating the disease. Our scientist have applied their skills to the pandemic in a number of ways. By setting up one of the busiest PCR testing centers in Bangalore, working on potential treatments with our clients, producing reagents for testing purposes and research into anti-virals. In the current global context, I think it is important that everyone with relevant skills recognizes that they have a duty to make a contribution, and we are delighted to have had this opportunity.

So to summarize on the pandemic impact, overall, I would say we are coping very well. And while none of us can be certain of how the pandemic will evolve next, I believe that our operations are sufficiently robust to weather the months ahead and we are making good progress towards delivering our full year guidance.

So, let me now move on to some of the “Operational Highlights of the Quarter.” Overall growth for the quarter was driven by good traction in Discovery Services and the dedicated R&D centers. As you know, the dedicated R&D centers represent some of our longstanding and deeper client relationships, and we continue to build those operations both in terms of the number of scientists and also the scope of activity.

And like any company, we value our clients and are proud of the work that we do for them and never more so than we see one of our clients enjoying success. During this quarter, we were particularly pleased to see significant successes for two of our clients and I wanted to share these as the good illustrations of the value that we can deliver:

The first is Albireo Pharmaceuticals, a clinical stage biopharmaceutical company focused on liver disease. Albireo announced in September that its compound Odevixibat had met both primary endpoints in its Phase-III clinical study. This drug will have a life changing impact for patients particularly children suffering from a particular genetic liver disease. So it is an important piece of scientific news, and for Syngene, this approval is the result of many months of work in our chemical development labs where we delivered several campaigns of drug substance starting from registration batches through to Phase-III, and we continue to work with the company as they submit their regulatory filings.

The second example concerns a client called C4 Therapeutics, which has just completed a successful IPO. This biopharmaceutical company develops novel therapeutic candidates for the treatment of cancer and neurodegenerative conditions through highly specific targeting and disruption at disease causing proteins, a process called Targeted Protein Degradation, and C4 Therapeutics is a recognized leader in this groundbreaking field, and Syngene's conducted many discovery research projects for them over the last three years.

Our ability to deliver complex research solutions has created an important role in their progress and this makes it particularly rewarding to see them win the confidence of investors through the IPO, enabling them to take their pipeline and their unique therapeutic approach forward.

Coming back to our own science, Syngene continues to make an active contribution to the fight against COVID-19. In addition to processing COVID-19 test for hospitals in the Bangalore region in our dedicated RT-PCR testing lab, the company's now tied up with more than 50 organizations and companies in and around Bangalore to conduct RT-PCR tests for their employees.

We are manufacturing and supplying reagents, primers and probes for COVID-19 diagnostic testing kits as well as working on research projects related to vaccine development. And we have also now started the process of manufacturing Remdesivir, and this is in line with the voluntary license agreement we signed with Gilead earlier this year and the subsequent technology transfer.

Syngene Elisa kit developed together with HiMedia received the required approvals. And I think that will be on the market shortly with HiMedia of course taking the lead on the distribution sales and commercialization of that.

In order to share our experience and growing expertise with the virus, we have also joined 18 other organizations from the healthcare industry to form an industry consortium, led by our longstanding research partner, Bristol-Myers Squibb. And that will focus on improving and accelerating various aspects of COVID-19 testing, ranging from research to clinical diagnostic applications.

Finally, in the quarter, we are delighted to receive a credit rating upgrade by ICRA, following an upgrade from CRISIL last quarter. This upgrade reflects the strong fundamentals of the business as well as I think our prudent approach to financial management.

And that brings to me to the end of my comments. Before I hand over to Sibaji to give you more details on the financials, let me summarize. Overall, second quarter performance was in line with our guidance, showing growth momentum in the quarter. Onsite operations are back to normal levels. We are seeing good traction in Discovery Services, dedicated R&D centers, and we continue to make an active contribution for the fight against COVID-19. So with that, let me hand over to Sibaji and he can talk a little bit more about the financials in some detail.

**Sibaji Biswas:** Thanks, Jonathan, and a very good afternoon to you all. I am happy to take you through our Results for the Second Quarter and Six Months-ended 30th of September 2020. I would like to start with a recap of Q1 which witnessed the full impact of the pandemic and prompted us to make certain changes to prepare ourselves to return to normal. We created zones in our campuses, moved to multiple shifts to reduce density in our laboratories, proactively tested employees to ensure our employees are safe at work. I am happy to inform you, despite the pandemic, we coped well during the second quarter and have operated at near-normal level. With our business continuity plans implemented and working well, Syngene was not only able to handle the challenges effectively, but in the process, become a stronger and more resilient organization.

With this context, let me run you through the performance for the quarter first and then I will go through the half year performance. The performance for the quarter has been good and we continue to track well towards our stated guidance. Revenue from operations which is our key management measure was at Rs.519 crores for the quarter which is up 12% over the same period last year and is an increase of 23% compared to Q1 of the current year, reflecting a strong recovery in the quarter. This performance is driven by our ability to operate at near normal levels and continuing traction in our Discovery Services and dedicated centers in this quarter.



Margins for the quarter remain steady at close to 32%. We have observed 150 basis points improvement in direct cost with raw materials and power which is now at 27% of the revenue. The improvement is on account of change in mix of our business, but also due to continued improvement in operating effectiveness in both areas of raw material and power cost. In this context, I am proud to report that from this quarter, over 95% of the power consumed in Syngene's main campus in Bangalore will be green power.

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 22% to Rs.161 crores as compared to Rs.132 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 has resulted in 15% increase in employment cost. Currently, we have about 5,200 employees in Syngene against around 4,700 employees a year ago. The rest of the increase came from amortization impact from the rollout of the new ESOP plan on 1st of June 2020 as per shareholders' approval last year. This impact has been factored in our annual guidance provided at the beginning of the year.

Turning now to “Other Expenses”, which essentially comprises of selling expenses, IT cost and other general overheads:

They are up 12% year-on-year to Rs.66 crores compared to the same period last year. The rise in these expenses is primarily attributed to the new ways of doing business during the COVID-19 times. We have seen an increase in our costs as we spend more on conveyance, personal protective equipment, logistics to support multiple shift in our laboratories and other facilities in order to reduce density. Our Mangalore API plant, which is under internal qualification and validation at this stage, has started incurring operating expenses which is also adding to this expense line. We are also investing more in technology, as we move Syngene towards the higher level of digitization and automation. Our ongoing investments in digital marketing assets, allow us to effectively switch to this new method of doing business. We have evolved our commercial execution by rolling out digital tools for connecting to our clients and we are now seeing greater acceptance of this new way of selling. Some of our measures include 360 degree videos to give clients a virtual tour of our lab, clients and regulatory audits by using remote technologies and video walkthrough inspection.

EBITDA margin for the quarter was close to 32% this year versus 33% last year. Other income which is primarily interest income, was down this quarter to Rs.14 crores Vs Rs.20 crores in the same period last year. This was because of lower cash balance on account of ECB loan repayment in March 2020 and the reducing interest rates compared to the previous year. Excluding this other income, the underlying business EBITDA margin is at 30%. This is comparable to the same period last year and reflects our highly calibrated approach to our spending during the pandemic period. Year-on-year EBITDA grew by 6% even after absorbing the additional expenses incurred for COVID-19 response.

Depreciation stands at Rs.68 crores, which is a 31% increase from Rs.53 crores in the same period last year. As stated, last quarter, it was mainly owing to the investments in the Hyderabad facility, expansion at our main Bangalore facility and commencement of the Mangalore commercial API plant.

Moving to the “Impact of our Currency Hedges,” the company recorded an exchange gain of Rs.7 crores in this quarter versus a gain of Rs.3 crores same quarter last year. This reflects the difference between forward rate versus a prevailing spot rate. The hedge rate was at Rs.74.5/US\$ as against a spot rate of Rs.73.5/US\$ during the quarter.

Now I will come and explain the tax line:

We accrue tax in our books quarterly based on estimated annual effective tax rate. In the current financial year, the estimated effective tax rate is expected to be between 11% and 12%. The decline in the effective tax rate is predominantly due to incremental depreciation impact in the tax books coming from the new units that have gone live, operating losses in the newly set up commercial API plant at Mangalore and the decline in the interest income, all of which contribute to nearly 300 basis points drop in the effective tax rate. A further 200 basis points drop in the current year is coming from the credits for reversal of tax provision from earlier years due to a change in tax due backed by independent legal opinion during our annual tax review process. As you may have already noted, in the reported quarter, the effective tax rate was at 11%.

Profit after tax was up 2% to Rs.84 crores as compared to Rs.82 crores in the same period last year. Profit after tax margin is 16% compared to 17% in the same period last year. Profit was impacted due to high depreciation and lower interest income. Please note that the reported profit for the second quarter last year included an exceptional gain of Rs.46 crores due to insurance claims, and what we are quoting over there is the PAT without that exceptional gain.

Now, moving to the “Half Year Results,” revenue from operations for the first half of the year was at Rs.941 crores, up 6% against the first half of last year. This was driven by growth in the second quarter partially offset by a flat first quarter. Given the strong recovery in the second quarter and our sales pipeline visibility for the next six months, we do not see the need to change our revenue guidance at this stage. For the half year, our reported EBITDA is up 3% to Rs.309 crores. If you remove the impact of the other income that is interest income, our business EBITDA has seen an 8% increase year-on-year. The underlying business EBITDA margin excluding interest income grew to 30% for the half year compared to 29% in the same period last year, a reflection of the improved operating performance in the business.

On a half year basis, the increased value of fixed assets has resulted in a 35% increase in depreciation expense to Rs.135 crores Vs Rs.100 crores in the same period last year. Foreign expense gain for the half year stood at Rs.4 crores Vs Rs.5 crores last year.

The income tax rate for the first six months of the year remains at 11% and we had an effective tax of Rs.18 crores Vs Rs.32 crores for the first half of last year. Overall, the first half of the year, our PAT pre-exceptional items were down 8% to Rs.142 crores Vs Rs.154 crores last year. We expect to continue the momentum built in the first half into the second half of the year and be in line with our earlier guidance of relatively flat PAT for the full year. We do not see the need to make any adjustments at this stage.

Let us move to some of the other items such as CAPEX and cash growth:

Our investment for the first half of the year were at \$26 million as a part of our ongoing CAPEX program. Of this, \$7 million pertains to the commercial API manufacturing facility, \$8 million was invested in Discovery Services, \$3 million in the Biologics manufacturing facility and the balance of \$8 million in the dedicated centers and the Development Services. With this capital expenditure, our fixed assets currently stand at \$475 million including assets under construction of US\$32 million.

While our guidance of spending US\$550 million by end of March 2021 still holds, from the point of execution and therefore accrual in the books of accounts, part of this net spill over to the next year. I will be able to provide a better picture in the next earnings call. However, one of the advantages of moving from one shift to multiple shifts in our operations has been the release of additional capacity into the system.

And we believe that a delay in CAPEX execution is not likely to impact business growth.

We have been able to sustain a healthy level of liquidity throughout the pandemic period and ended up with a net cash balance of Rs.287 crores as of 30th of September 2020. This demonstrates the quality of our business and that of our client base.

Our balance sheet is strong which is also reflected in the ratings upgrade from both CRISIL and ICRA over the last few months.

As most of our receipts are in US dollar, we can borrow US dollar denominated money without exposing the company to any incremental foreign exchange risk due to the natural hedge we enjoy in our business. Incidentally, these are also times when interest rates on dollar denominated loans are at one of their lowest levels. Leveraging all these advantages, we decided to refinance the \$50 million ECB loan that we repaid last March during this quarter to further consolidate our liquidity position during this very unpredictable times.

Syngene has engaged in many activities to contribute to global healthcare during the pandemic. Jonathan mentioned many of them, including the ELISA test kit and the manufacturing of Remdesivir at our Bangalore facility. While the revenues from these are difficult to predict due to the very uncertain nature of the demand, we do not expect any of this to

fundamentally change the revenue and profit expectations for the year.

Hence, I repeat at this stage we do not see the need to reassess our revenue and profit guidance given in the May earnings call. As a reminder, we expect low double-digit revenue growth and PAT for the full year to be at similar levels as of financial year '20. As I have always mentioned in the last few months, this guidance should be seen in context of what are clearly uncertain conditions, and if required, we will update the guidance during our next quarter's earnings call.

Before I conclude, let me "Summarize the Results for the Company for this Quarter":

We are tracking well towards our guidance. At present, we are operating at near normal levels, and the second quarter performance reflects a strong rebound both in revenues and profits in the quarter. Our business has been showing strong resilience and continues to grow in double-digits. The overall cost structure is holding good with clear signs of efficiencies visible in many lines despite the additional expenditures related to functioning in times of pandemic, our balance sheet is healthy, and we have a strong liquidity position to support us through this trying times. Having learned to live with the pandemic, we feel confident about our future.



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

**Moderator:** Thank you. We will now begin the question-and-answer session. The first question is from the line of Nikunj Doshi from Bay Capital. Please go ahead.

**Nikunj Doshi:** Just wanted to clarify one thing; this Remdesivir is a CSR business or is the commercial opportunity for us?

**Jonathan Hunt:** I think if you take a step back, in a global pandemic, all of us I think have an obligation to do what we can in our sphere of expertise, and from a Syngene point of view, that is a deep understanding of the science and capability to directly address disease. So we are doing something on many fronts with that, whether it is the development of our own ELISA test, the PCR testing that we are doing for communities and for staff here in Bangalore, and in the Remdesivir case, taking one of the nine voluntary licenses from Gilead to make that drug available. We will have to wait and see what the commercial potential is around that, but it is much more important that it is available widely if there are patients that need it. I think that was the spirit of Gilead's decision to allow nine companies outside of themselves to access that intellectual property and make that drug available in 110 or more countries around the world. So, I do not think in our industry you can disaggregate the commercial from the civic and the right thing to do in a pandemic.

Now, in terms of the specific outlook for Remdesivir, for us, Sibaji's comments I think were quite clear, it is wrapped up into our guidance for the full year. I do not see it as a material driver of the company's performance this year. But don't forget that all of the other diseases, just because we have COVID does not mean to say that cancer, heart disease and the myriad of other things that flick people went away. So, we continue to be committed to make progress in those areas as well and that is the core of the business. So I think the answer is probably got enough pointers to how to think about it commercially but also to understand why we think it is the right thing to do.

**Nikunj Doshi:** Another question on asset turnover which we have guided for 1x asset turnover. But now considering we are working from home and we are working on multiple shift kind of the thing, do you think potential to...?

**Jonathan Hunt:** To be fair, as a science-based, lab-based organization, we are not really working from home. Some of our staff are working for home, those in sort of admin support enabling functions. But I can see a number of challenges doing heavy duty industrial chemistry in a working from home model. So I do not think that is a real insight into how we are actually operationalizing. The vast majority of the staff in labs, in manufacturing suites, are on campus.

**Nikunj Doshi:** So we may not see a higher asset turnover in that case?

**Jonathan Hunt:** No, but also those things, they do not move week-over-week, month-over-month, they move over years. So our guidance on a one-for-one asset turnover being a rule of thumb approximation to help analysts model, plays out over a business cycle, so five years or more being a business cycle.

**Nikunj Doshi:** And any visibility on Mangalore facility utilization, any guidance there?

**Jonathan Hunt:** Not that I would share with you. I think we have been consistent and repeatedly clear every quarter for the last two and a half years. The previous two years were around the construction phase. That is pretty much completed. This year the theme is very much about an operationalization and validation period. And as we come into the next financial year, would be the soonest opportunity to sit and talk about how that asset will develop over the next 30 years of its life from a commercial point of view. But think long term, do not think quarters.

**Moderator:** Thank you. The next question is from the line of Amit Kadam from Canara Robeco. Please go ahead.

**Amit Kadam:** Sir, my question is on Mangalore API plant. What will be the fixed cost which we will be incurring in this particular year because we will not be having revenue, so I wanted to understand what will be the loss at the EBITDA for this particular year for Mangalore facility?

**Jonathan Hunt:** Again, I would go back to the answer I gave to the previous caller. We have spent the last two and a half years explaining every quarter the structure of how to think about it. It is two years of a construction phase, has just ended. We are in a validation phase. We have not given and would not give line item guidance on Mangalore. I will talk about it. I would have thought that the full year results in terms of setting a reasonable modeling framework for coming years. But beyond that, I do not think we have a comment to make.

**Amit Kadam:** Why I was curious to know that, because that will give us a sense how much is this new facility that I just refer to particular cost, what will be the core earning profit that we earn, our core business margin, that would have given a sense to the manufacturing business margin profitability because that is diluting the overall profitability. Optically, it tells you that margin wise it could be dilutive. Just wanted if we could have stripped out the manufacturing facility cost, then it could have given a better sense of the core business profitability?

**Jonathan Hunt:** I understand your reason for your curiosity, but I probably refer you back to the answer I just gave you, which is at this point we are not giving guidance. Sibaji, do you have a specific comment that you would want to add to that?

**Sibaji Biswas:** We have maintained that Mangalore facility is replacing the EBITDA margin by a few percentage points. But beyond that, it will not be right for us to give any specific number.

**Jonathan Hunt:** I think in the context of the quarter we have just delivered, I would be delighted to talk more about what is driving the core of Syngene, the Discovery Services, the development, how we delivered 12% revenue growth or 22% sequential acceleration from the first quarter because they are the core of the business. The repeated returning to questions around Mangalore when it is a facility that is under qualification, and we will talk about next year when it becomes relevant for the first time. Very happy to take more questions on our business as is today. Because I think it is doing very well particularly in light of the COVID pandemic, the way we have responded to that and the way we are back serving clients at near normal full operating capacities.

**Amit Kadam:** Any chance that maybe say just a couple of years will be having a two separate revenue item line to mention what was our service revenue and what was the manufacturing revenue?

**Jonathan Hunt:** Well, again, I would not take up your invitation to speculate about what we might do in the future. If and when we do it, I am sure you'll be amongst the first to see us communicate it.

**Amit Kadam:** We have seen a headcount of the employee cost increase. What was the latest headcount in terms of number of scientists? 4,240 is the latest number of scientists.

**Jonathan Hunt:** Again, we update those annually, but I think actually, if you go back to the script and the comments that Sibaji gave you, we actually covered that in his statement, which is up from 4,700 employees a year ago, currently running about 5,200. But if you pick up the transcript of the call, it is in there.

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

**Prakash Agarwal:** So my question is what would be the dollar term or CC term growth for us? And at what point of time we start showing revenue growth higher than the cost? I mean we had seen that in the past, we were in the investment phase for the last eight quarters. And when do we start seeing revenue growth being higher than the cost?

**Jonathan Hunt:** I think if you take our guidance for the full year, we are directing you to low double-digit revenue growth broadly flat on profit. So you have got a pretty good sense of what we think is going to happen over the remainder of the year. Beyond that, I am not going to speculate on future years. As you know, the full year results are talking about the year ahead.

**Sibaji Biswas:** And Prakash, as I mentioned in my commentary, if you take out the interest income at operating EBITDA level, we had EBITDA margin improvement, which means the revenues are growing a bit faster than the cost. Now, whether it is creating a large gap? Not yet, but that will happen over a period of time as we move on from here depending on the operating leverage. On your first question, “What is the dollar term growth rate?” It is close to 10% against a 12% reported growth rate.

**Prakash Agarwal:** Just one clarification on the comment you made on the restricted share plan. So, this is the first quarter which has seen an impact. And if you could quantify and verify that it would be every quarter, right, that is how it works, right?

**Sibaji Biswas:** ESOP plans by nature the amortization is frontloaded because it is amortized over the vesting period, right? And so it will be there every quarter, but over the years, it will start going down. So, that is point number one. And point number two, on your query on exact amount, I mentioned that in my commentary, I repeat, we grew 22% on employment cost, out of which 7 percentage points growth is coming from ESOP plan amortization. So you can calculate based on the employee cost number that is already in the financial.

**Prakash Agarwal:** On the capability side, in the last presentation, we spoke about CAR-T directly seeing some queries and we are expanding our capability.

So what is the current status in terms of getting some orders there or how is this particular piece going for us?

**Jonathan Hunt:** I think in general, it is going well. I would not point to any material change. We continue to do discovery research work in that area with a number of clients. So I think we are pretty happy with the progress.

**Moderator:** Thank you. The next question is from the line of Kunal Mehta from Vallum Capital. Please go ahead.

**Kunal Mehta:** My first question is for Jonathan. Wanted your perspective on the situation in the industry right now especially from the perspective of dry powder in the system, I mean, how do you see your small midsize or maybe early stage clients with respect to their ability to fund trials right now? And how do you see the Discovery business going ahead? And also, any view on the development side of the business would be very helpful because majority of the global CROs are yet to come out with your earnings. So just wanted your view on the situation in the industry right now especially on our client side?

**Jonathan Hunt:** I think the answer depends on what time range you put around it. So if you take a step back and take a multi-year more sort of strategic view, then COVID should not be a disruptor to what has been a decade long evolution and creation of a vibrant global discovery services, CRO services segment. I have been in the pharma industry long enough to remember when just



nobody would conceive of doing innovative science outside of their own labs. You roll forward today. And the marginal biotech entrepreneurs starting a new business with new capital with a new idea today, you probably could not conceive of doing anything other than delivering some of your science in partnership through a network sort of approach. So we have moved a long way. I think there is a lot more to go. It is difficult to assess the degree of penetration of the market potential just because data is incredibly difficult to put together. It is more patching together jigsaw of information than having a hard database. But I do not think we have reached the halfway point yet on what the industry's potential is. And therefore that I think, a long term buy signal and gives us confidence that actually, the things that will determine individual firm success are not really lack of macro demand, but your ability to meet that demand and execute and serve the clients. And that brings those determinants of your success much closer to home and within your own reach. And I think that is a good place to be. If you take a much shorter timeframe when you think in weeks and months, then of course COVID-19 is a big disruptor but it is creating more fog than is volatility. It is difficult to predict rather than the world has stopped turning. As you can see from our own experience, we took a voluntary shutdown in the first quarter and that clearly had a disruptor for the impact. We took that decision in light of what we thought was best to get us operationally back in a robust operating model quickly. And we have seen that play out in the second quarter. We are now pretty

much fully back at work and operating. I was going to say as normal, but I do not think there is anything normal about the current world circumstances, but we are operating well and we are serving our clients. I think there are unknowables' actually, rather than unknowns and it is just how the second half will pan out. There is certainly demand there. Clients are keen to get back to work. But as you can see, if you look around the US and Europe, individual countries are hitting the second wave of the virus at differential rates, they are reacting in different ways. But underpinning it, people are solution oriented, our clients are genuinely looking to get work done, we are available to do it, and therefore, from that point of view, I am comfortable that we have got a good opportunity in the second half. So one was a complete micro answer and the other one was quite strategic and macro. Hopefully, between those two book ends I have said something useful.

Kunal Mehta: And my second question is, so for us, the strength of the dollar has been a very important point of competitiveness. And when we think about the dollar going ahead for the next few quarters or maybe more than a year, I am sure there will be some weakness going ahead. For us this weakening of the dollar, how does it impact our business model? And how do we see things going ahead based on that viewpoint? And secondly, sir, has COVID impacted the pricing in the industry? And I am sure you hedge your risk for the next 12-months, and for dedicated contracts, you hedge it for more

than 12-months. So what sort of rates are you getting at the present, and how do you see the benefit going ahead?

**Jonathan Hunt:** There is a lot in those series of questions. I will make a comment and then invite Sibaji maybe just to talk a little bit about our approach to hedging, make sure everybody has got the same understanding of what we do and how we do it and why we do it. I think one comment I would make is predicting global currency markets as the CEO of a services firm is a little bit above my pay grade. So I do not think it is core to what we do. Now you linked it by saying, how does this impact your business model. I do not see them as linked. FX rates around the world will vary. It is an intrinsic part of being in a globalized business. But our business model is around serving our clients scientifically. And I do not see that necessarily changing just because currency rates move one way or the other. We may get some temporal benefit or temporal headwind, but within that context, I do not see it as a strategic driver of what we do. The core of what we do is add value to our client scientific ideas by turning them into drugs that have gone and treat patients, and that is how they commercialize them. But with that, we do then need to take a year-end financial prudence and how we set the business up. And maybe Sibaji, you could just summarize our approach to hedging and the current position.

**Sibaji Biswas:** Sure. Thanks, Jonathan. So, as a company, we do not believe in keeping open positions in foreign currencies. So we do not speculate. From where

we are today, next one year of our receivables are fully hedged which effectively means rest of the current year and 50% of next year's receivables are hedged. Current year, as I mentioned in my commentary, the hedge is around Rs.74.5 and next year, it is between Rs.76 and Rs.77.

So short term dollar fluctuations do not matter to us and we will recover based on the hedges that we have already taken. So, as a policy, we keep on hedging one year forward, and for long-term contracts, we have hedged for the full contract period. Our hedge book is \$500 million, and from a FOREX management perspective, we are pretty safe, and we are immune to short-term FOREX rate movements in the market. Hope that is clear, right?

**Moderator:** Thank you. The next question is from the line of Alankar Garude from Macquarie. Please go ahead.

**Alankar Garude:** Sir, one question on the Development and Manufacturing Services Division. Now considering that we have had a significant expansion in Biologics for the past couple of years, now if you look at this current quarter as well 12% growth and you alluded to better growth coming as far as the Discovery and the dedicated centers are concerned. So, any particular issues which would like to highlight as far as this segment is concerned before we start seeing the Mangalore facility contributing?

**Jonathan Hunt:** No, but I would say, first, we see it as two divisions; one is Development Services, and that is independent of manufacturing services; one does commercial scale manufacturing, the other one is a development organization and we will do clinical scale manufacturing. So on the development services, I do not see any material change in that environment, we are doing reasonably well, be delighted to do better, we can always drive for more growth. We have invested in recent years in some new capability and capacity. We pointed to that with the Biologics team. And we will update you as we see that progress. On the manufacturing services at the commercial scale, which is principally seen by the capital markets through the lens of the Mangalore site, we are in a validation period for the year. I have told you by the next year which is in line with what I said every quarter for the last 2.5-years. When it is ready and qualified, then we will be able to start to talk about it. But I would condition your understanding. We invest in long-term capital infrastructure like a 40-acre manufacturing campus and the first wave of construction there with a view for building a business that will be viable over its asset life cycle which on a plant like that something like 30-years. Chasing down has not happened yet every quarter, is not the way we would run the business. It may be how you have to model it from a capital markets point of view, but it is not how you create a manufacturing business. So happy to update you at the year-end. But I think it is well understood. It is certainly by the investor base, if not the analysts

community that you build those over business cycles and the next business cycle is five years.

**Alankar Garude:** And one small follow up, if I may; so on Biocon, right, so it is also working on Novel Biologics. So, have you received any queries or any concerns from any of your clients regarding any possibility of any conflict of interest between Biocon's Novel Biologics division as well as the work which we do on the Biologics side? And if you could help us understand, is there any meaningful difference in the work being carried out by both the entities?

**Jonathan Hunt:** Well, that is an interesting question. That is a question that I think was a genuine one asked by our clients 20-years ago. When we started this business, and it was a department, and then it grew to be a division within the broader Biocon group, I think that was a relevant question right at the foundation of the company and what, 25-years-old or so now. That has not been a relevant question I think in the last decade because we operate wholly independently. That was one of the reasons for IPO-ing the company and spinning ahead, giving its own identity, its own capital market structure. And I am sure you understand this, but the global biopharma industry, like many global industries with high technology risk is just a nexus and a network of interweaving collaborations, and you can collaborate with a company on one project while being simultaneously their fiercest competitor on another. It is just normal in the industry. And what you have to do is, firstly, have the right culture and processes and

just have a real discipline about firewall and information controls. But frankly, if we were not good at that and had not established an ability to do that over the last 25-years, I do not think we would have got as far as we have. So it does not really come up very often. And quite rightly, we see Biocon and then Biocon Biologics as arm's length organizations that are independent from us.

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

**Tarang Agrawal:** I have a couple of questions. The first one, can you give us some insight on your development business in terms of how many molecules are in the late Phase-III or early Phase-III and maybe the size of opportunity for Syngene or the end customer if the molecules were to be commercialized? The second question is, when I look at the other players in the listed space, some of the pharma CDMOs are doing some bit of agrochem manufacturing. You do seem to be doing some CRO work for agrochemical majors. In the short to medium term, can we anticipate Syngene to move into agrochem contract manufacturing work?

**Jonathan Hunt:** Good question. Let me take a step back because I think we are using overlapping terms and we probably have a different understanding of what they mean. So, if you go to your question around how many molecules do we have in our pipeline?

The answer is none because we do not have a pipeline and never have had. We are not a product-based company. We do not own any of the intellectual property. We did not do on the day we were formed. We have not done in 25-years. It is a fundamentally different business model. And I know at times it is challenging because you got the majority of pharma companies or life sciences businesses not globally, but in India, our manufacturing businesses that have then grown into doing their own products and pipeline. So we are not a generics business, we do not have our own assets, we do not have our own pipeline. Our Development Services business is principally, it is like the Discovery Services business. It provides either FTE or fee-for-services to pharma companies and biotech companies around the world. We will help them develop new formulations, we will help them develop manufacturing processes, we will do clinical scale manufacturing for them. But we do it all on a service basis. And that does not give us ownership of the product or ownership of the asset. So it is a different lens. So I get the premise of the question that it sort of almost does not fit well with our actual business model. On the second question on agrochemicals, we do not do a great deal. Where I think with those adjacent industries, and I look at agrochem, I look at specialty chemicals and materials and I look at animal health, our role in those is where those industries almost need to cross over into wanting high added value science, real innovation, that intellectual innovative bit at the front end of the research, development, manufacturing, process



right at the front end. And they sort of cross the boundary into our space because we have skills that are applicable, high science. Now it is very helpful being in India with what is relatively a cost advantage on operations that some of those industries now point here to the animal health one. Their margin structure means they are very, very cost conscious, but they also want innovation and in working with us on the research side, I think we can create value for them. But on the agrochem, small part of our business, it is more of a sideline than a major driver. And I do not necessarily see a good fit with us becoming, for example, that agrochem manufacture at scale. That is quite a scale-based high CAPEX industrial approach. And the core of what we do particularly well I think is more around added value innovation. Hopefully, that helps.

**Tarang Agrawal:** That helps. Can I just rephrase my first question? My sense is the only intent was that for your clients molecules for which you are providing services, how many of those molecules would probably be in early phase or late Phase-III and what is the size of the opportunity per client?

**Jonathan Hunt:** And again, I mean, the answer is either I cannot tell you or I could not tell you in the sense of we do not necessarily track our clients pipelines. It is not the way that business will play out. If you are saying what will drive the manufacturing business over the long-term, it is going to be like most CMOs, partnering in that mixed phase of development with clients, but the minority of that revenue is going to come from a flow through from our

own labs just because of the differential. We are a big organization, but the industry we serve is in order of magnitude bigger. So we are more likely to get projects that people want us to do manufacturing on from their labs rather than flowing through from ours.

**Moderator:** Ladies and gentlemen, we will take the last question from the line of Cyndrella Carvalho from Centrum Broking. Please go ahead.

**Cyndrella Carvalho:** Jonathan, if you could help us understand what is the key driver of this quarter's growth? And if you could help us understand a little bit more color as to like do we have the enterprise that will meet our guidance. So what are the key areas which is giving us the confidence? And the second one, if I may is, would we be the partner for the commercial launch of Albireo's liver disease, just want the confirmation?

**Jonathan Hunt:** On the latter bit of the question, I do not have a comment to make, there is no decision being made on that by Albireo. But also I do not think that at that point, they are in the regulatory review. So I have to figure out whether or not that product is going to go forward and be successful. I hope it is because I think it is a high area of unmet need. On the quarter, I think Discovery Services, I would call out as having done well, dedicated centers did well, the other parts of the business, I think we are okay, but we highlighted Discovery Services and dedicated centers have been particularly strong in the quarter.

And I think that is the pattern for the rest of the year. Broad-based growth, reacceleration in the second half from where we are now. We have seen a good bounce back in the second quarter. I think we will start to see more of that through the third and fourth quarters.

**Cyndrella Carvalho:** ETR would be similar to 11% to 12% in FY'22 as well?

**Sibaji Biswas:** So we will be giving you a better understanding of that later. Right now, our guidance is restricted to the current financial year. So we cannot talk about FY'22 onwards.

**Moderator:** Thank you very much. I will now hand the conference over to Mr. Kartik Sankaran for closing remarks.

**Kartik Sankaran:** Thank you, everyone for your time and attention this afternoon. We look forward to engaging with you as we continue to progress. Thank you. You may now disconnect your lines.

**Jonathan Hunt:** Thank you.


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


## About Syngene

Syngene International Ltd. (BSE: 539268, NSE: SYNGENE, ISIN: INE398R01022), is an integrated research, development and manufacturing services company serving the global pharmaceutical, biotechnology, nutrition, animal health, consumer goods and specialty chemical sectors. Syngene's 4200 scientists offer both skills and the capacity to deliver great science, robust data management and IP security and quality manufacturing, at speed, to improve time-to-market and lower the cost of innovation. With a combination of dedicated research facilities for Amgen, Baxter, Bristol-Myers Squibb and Herbalife, as well as 1.9 Mn sq ft of specialist discovery, development and manufacturing facilities, Syngene works with biotech companies pursuing leading edge science as well as multinationals including GSK and Merck KGaA. For more details, visit [www.syngeneintl.com](http://www.syngeneintl.com).

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