

## Syngene International's Q2 and H1 FY 2017 Conference Call

October 21, 2016

### Key Participants from Syngene International

- Mr. Jonathan Hunt: Chief Executive Officer
- Dr. Manoj Nerurkar: Chief Operating Officer
- Mr. M.B. Chinappa: Chief Financial Officer
- Ms. Chanderekha Nayar: Investor Relations Team

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### Presentation Session

**Moderator:** Ladies and Gentlemen, Good Day, and Welcome to Syngene International Q2FY17 Earning 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. Chanderekha Nayar. Thank you and over to you, mam.

**Chanderekha Nayar:** Thank you, Janice. Good afternoon, Ladies and Gentlemen. This is Chanderekha Nayar from Syngene International Investor Relations Team and I welcome you to Syngene International Earning Call for the Second Quarter Fiscal Year 2017. We have with us today Mr. Jonathan Hunt – Syngene's Chief Executive Officer and the senior management team to discuss the Company Performance and Outlook. Before we proceed with this call, I would like to remind everybody that this call is being recorded and a replay will be available for the next few days immediately after the call. The transcript of this call will be made available in a week's time on the company's website. I would also like to add that today's discussion maybe forward-looking in nature and must be viewed in relation to the risks pertaining to our business. The Safe Harbor clause indicated in 'Investor Presentation' also applies to this conference call. After the end of this call, in case you have any further questions, please feel free to reach out to me.

Now, I would like to hand over the call to Jonathan Hunt. Over to you, sir.

**Jonathan Hunt:** Thank you and Good Afternoon, Ladies and Gentlemen, thank you for joining us on today's call. I will start by making a few introductory comments about the company's performance for the quarter as well as give a little more background on the two strategic deals we closed during the quarter and then I am going to hand over to Mr. Chinappa – Syngene CFO to walk you through the financials in greater detail.

Syngene started off FY17 on a sound note, recorded robust growth in Q1 and we are happy to maintain that strong momentum into the second quarter.

Reported revenue for the quarter grew by 22% to Rs.319 crores. Profit at the EBITDA line grew 49% to Rs.122 crores; profit after tax for the quarter increased by 55% to Rs.75 crores - so strong revenue performance and even stronger profit performance.

That said, it would only be fair to note the positive impact that both interest income and favorable currency movements had on top of what was the strong operational performance and note, Chini will make a few comments to tear apart the impact of those various drivers of our reported performance had.

The quarter also saw two strategic deals, which we believe strengthen our position as a one-stop solution provider for our clients R&D requirements.

First of them was the setting up of a dedicated R&D center for Amgen. As you may be familiar, Syngene's business can be divided into three verticals – Dedicated R&D Centers, Discovery Research Services and Product Development and Manufacturing Services. Our Dedicated R&D vertical is we believe a differentiated business model through which we provide Integrated Discovery and Product Development Services to a client by setting up a fully dedicated or captive research center that is then customized to their requirements, we staff and operate the center on their behalf working in collaboration with their scientists.

I am happy to share that during the course; we took an important step forward by having a new dedicated R&D Center for Amgen. Syngene has been collaborating with Amgen for the past four years on a number of drug discovery and product development projects. This dedicated center, the Syngene Amgen Research and Development Center or SARC will consolidate all of these R&D activities into one location as well as form a platform to taking this collaboration to a new level of partnership. Given Amgen's position as a recognized world leader in biotechnology, we see this as an important validation to Syngene's capabilities to deliver cutting-edge scientific solutions at a par and meet the very best global standards.

SARC will be home to a highly talented multi-disciplinary team of over 100 Syngene scientists and they will be working closely with Amgen's global scientific teams on the discovery and development of innovative medicines. We firmly believe this collaboration is a truly synergistic partnership and it sets a very solid foundation for future growth. As you also know, Syngene

already operates dedicated R&D centers for Bristol-Myers Squibb, Abbott Nutrition and Baxter and SARC brings a total to four dedicated centers and collectively they represent a little over a third of the total company revenue.

Turning now to the other important development in the quarter was the addition of bio-informatics capabilities through the acquisition of Systems Biology, Heptox and Pharma Bio-Informatics Services, Strand Life Sciences, a leading bio-informatics company based here in Bangalore.

Each and every drug discovery and development project generates tremendous volume of data and this data needs to be scientifically classified and analyzed, often utilizing advanced algorithms to get a deeper insight into the drug discovery process. Bioinformatics is a computer-assisted data management discipline that helps us analyze, interrogate and makes sense of this data.

Globally, there is an increasing focus on data management and data analysis. According to a recent Biospectrum Report, the global informatics market is expected to grow from around US\$10 billion which is where it was in 2013 to around US\$30 billion by 2020, compound average growth rate of over 15%.

This growth in the demand for bio-informatics services provide the tremendous market opportunity for an integrated CRO like Syngene to offer bio-informatics services to our clients. In addition to being able to offer bio-informatics to clients as a standalone service line, the integrated drug discovery projects that we run on their behalf also generate a large amount of data and having this expertise to manage and interpret data in-house will also be a great value to our clients.

We also plan to expand our services into newer areas like NGS or Next Generation Sequencing, Translational R&D, Predictive Toxicology and Preemptive Target Validation Services. This deal puts in place the right bio-informatics capabilities and we see those prerequisite for delivering these new services.

So let me summarize, from a revenue and profit perspective, the quarter has been a good one; we have seen some strong performances across key business verticals, and we make good progress against our strategic objectives with the completion of two important deals.

So let me call now Mr. Chinappa to give you an overview of our financial performance for the second quarter and also for the half year.

**M.B. Chinappa:** Thank you, Jonathan and Good Afternoon to all. I am delighted to take you through our performance for the second quarter and half year FY17. Firstly, I would like to take you through the reported performance looking at revenue, EBITDA and profit after tax and then also make a few comments on underlying business performance that will give you a better understanding of our business. If you look at the overall Q2 performance, we are happy to have reported a growth of 22% in

revenues. The growth has two elements – The underlying business of operational performance of our three verticals as well as the non-operational financial benefit we get from interest income on the \$100 million ECB debt currently held in bank deposits.

Coming to the first element, as you know, our business operates in three business verticals – Dedicated Research Centers, Discovery Services and Development and Manufacturing Services. We are happy to report that we have seen very good performance in both the Dedicated Research Centers and Discovery Services during the quarter. That said, we have seen a little softening compared to our expectations in the Development and Manufacturing vertical. While it is too soon to call a trend, we would watch this more closely during the coming quarter. As we mentioned in the last call, our Development and Manufacturing vertical saw sales return in Q1. We are currently reprocessing the material and expect to ship the same in the coming quarters.

Talking about the second element, as we have reported in the previous quarter, we took ECB loan of \$100 million in March 2016 to help fund strategic development and future expansion plans. While this investment is being made in a staggered manner, the funds are currently parked in deposits that are yielding interest income and this interest income which clearly not part of our assessment of the underlying operational performance is giving a positive boost to both revenue and profit.

Turning now to the specific numbers for Q2, reported revenues have grown from Rs.262 crores in Q2FY16 to Rs.319 crores in this quarter, reflecting overall growth of 22%. The EBITDA at Rs.122 crores and PAT at Rs.75 crores, reflects the growth of 49% and 55% respectively with EBITDA margins at 38% and PAT margins at 23%.

As I mentioned in my introduction, it is worth taking a moment to look at underlying performance of the business excluding the impact of interest income.

If we exclude the interest income benefit the underlying growth in income from operations during the quarter was 16%, as I said it was a strong performance and well ahead of what we see is the overall growth in the CRO industry.

I would also like to note that there was minimal benefit on the currency as the rupee averaged Rs.66.9 in this quarter versus Rs.65.6 in the previous quarter. Associated with the increase in interest income, there were interest and finance charges of Rs.3 crores and income taxes of approximately Rs.4 crores. If we exclude the effect of interest income and the associated interest cost and taxes, the EBITDA and PAT margins for the quarter were 35% and 22% respectively with the growth of 31% and 40%. The final adjustment that is worth looking at is the positive impact of Rs.6 crores from hedging gain, that has been credited to other expenses. If we adjust for hedging gain and other income, then EBITDA and PAT margins for the quarter would be around 33% and 20% respectively which is in line with the historical average.

So as you think about how we model next year these historical averages maybe a better indication of where we expect our margins to be in the longer-term. It is worth noting that this underlying measure of margins are amongst the best in the industry which we feel is a fair reflection of the higher value services that we offer to our clients.

A quick comment now on the expense line within the P&L. As you know, our plan for the year called for an ongoing investment in headcount, infrastructure and capability expansion to meet the rising demand that we see in the market.

You can see the execution of this plan in the Q2 numbers; total staff cost have grown 34% YoY, reflecting an increase in employees from 2753 this time last year to 3329 as of today as well as salary increments for the year. The significant increase in headcount is indicative of the investments that we have made in hiring senior scientific and leadership talents to support our growing business. It is also reflecting of the premium that we are paying to attract and retain the right talent.

Now, let me briefly take you through our half year numbers: Our H1 results also show a similar trend to the Q2 results reflecting a growth of 22% in revenues from Rs.498 crores to Rs.610 crores with reported EBITDA and PAT margins of 37% and 22%. Applying similar adjustments relating to other income and hedging gain to H1 results, the adjusted underlying EBITDA and PAT margins stand at 33% and 20% again in line with our historical average.

If you remember in the previous quarter, we moved to the new IND AS and shared with you the impact of the shift. Continuing on that note, we would like to inform you that the impact of the restatement on our profits for Q2 FY16 has decreased by Rs.4 crores while the full year profit for FY16 increased by Rs 20 crores. This adjustment is mainly due to the mark-to-market adjustment on FX contracts.

As regards the ongoing CAPEX programs, we have till date invested approximately \$66 million of the plant expansion CAPEX program of 200 million. The commitment is in line with our plans and helped us in our growth strategy moving forward.

In closing, let me summarize today's results: We are happy with the progress we have made both the reported and the underlying business performance are strong one and we believe our performance for the quarter and half year are strong and puts us in a very good position to achieve our mid-term guidance of reported revenues of USD 250 million in FY18.

With this, let me turn the call back to the operator and we will be delighted to take any questions

### Q & A Session

**Moderator:** Thank you. We will now begin with the Question-and-Answer Session. We take the first question from the line of Dhires Pathak from Goldman Sachs. Please go ahead

**Dhires Pathak:** The dollar revenue growth the guidance that we had shared of \$250 million I think that needed about 20% revenue growth in dollar terms. Our dollar revenue growth is in low teens for the first half of this year. In the first quarter you talked about some deferment and in this quarter you are seeing that is yet to go. So can you just talk a little bit more about is there any longer-term, medium-term change in the growth trajectory or you feel confident to achieve those numbers which were shared earlier?

**M.B. Chinappa:** So just to clarify that the dollar constant currency growth is in the mid-teens. Like I said, in this quarter a very minimal impact of the currency movement. Under 2%. Also, in my opening remarks I indicated that we maintain our guidance of \$250 million for FY18.

**Dhires Pathak:** So like why is it that this first half it is so because last year it was 20% and you need to grow at that CAGR to get to that guidance, so first quarter we knew there were some deferment because of which growth was lower, why is the second quarter growth in mid-teens and not in 20 plus?

**M.B. Chinappa:** As I indicated, one of our verticals have slowed down in this quarter. We are watching this and we expect this to pick up.

**Dhires Pathak:** I want you to give more details in to what is the slowdown, some more color there?

**M.B. Chinappa:** No real trend, nothing like that we can really point to say, "Hey, this thing has happened or that thing happened." But, like I said, this is for the quarter, we are watching this over the subsequent quarters and we expect things to pick up.

**Dhires Pathak:** The hedging gains for this quarter was Rs.6 crores. Was there any number in the corresponding quarter last year?

**M.B. Chinappa:** Last year we had a loss.

**Dhires Pathak:** Was the loss was also shown in other expenses?

**M.B. Chinappa:** Yes, in other expenses.

**Moderator:** Thank you. The next question is from the line of Abhdul Puranwala from Centrum Broking. Please go ahead.

**Abhdul Puranwala:** Just wanted to understand the new research center and the viral testing facility what was commenced in the last quarter. Has it started generating revenues in the Q3, would we find some amount of revenue coming in from those three?

**Jonathan Hunt:** Clearly, the largest of the facilities is the Amgen research center, which is now up and running, occupied by the scientists who are working on it.

**Manoj Nerurkar:** If you look at the new facilities that are just coming on line or will come on line in next few months, some of those as Jonathan said, (SRC) Syngene Research Center which houses the Amgen dedicated center. That is 100 plus scientists which are already working in there and therefore those revenues are already factored into this quarter's revenue. Comes to other facilities like formulation center, it is undergoing the qualification at this stage and in next two to three months that facility will come on line and we will start gaining momentum hopefully in terms of doing business out of those facility which will then contribute to the revenue. When it comes to viral testing, it is more than revenue contribution, it just makes our Biologics Development vertical complete, and in that sense revenue contribution from that is not really significant but from integration of services, it is a very significant step for us. So these are some of the new facilities that are coming up. As Chini said in his initial report that out of \$200 million we have spent about \$66 million on various facilities and as we go along these facilities will start generating revenues for us.

**Abhdul Puranwala:** Also, may I request you to provide me the segmental breakup into the three divisions for the current quarter and half yearly both?

**Jonathan Hunt:** I am sorry, I have to disappoint you, but we do not break down into segmental reporting like service line-by-service line P&L on quarter-on-quarter, partly that because it reflects where we think the business operates, it is around integrated drug discovery and each one of those components fits together into delivering a holistic whole client. Chini has one or two comments he would like to make around the way the revenue spreads across the organization. I think earlier in the call, we mentioned if you look to the dedicated research centers, that is about third of the revenue and the remainder of course is split between the other two key verticals – Discovery Services and also the Product Development and Manufacturing.

**M.B. Chinappa:** It is in line with previous quarter, a third coming from the Dedicated Centers, a quarter coming from the Discovery Services and Development and Manufacturing Services

**Moderator:** Thank you. The next question is from the line of Pares Dave from Ambit Capital. Please go ahead.

**Paresh Dave:** Sir, if I heard correctly, you said that the Amgen's revenue has started being reported in the 2Q results, is that correct?

**Jonathan Hunt:** That is correct, but you have to remember, we have a 4-year plus relationship with Amgen and what happened in the quarter is the signing of a strategic intent which moved the nature of our relationship from being more ad hoc to that into a long-term contract, long-term commitment with the dedicated set of laboratories constructed for Amgen. We moved all of the work we have been doing across the campus into that one center started out with the 100 scientists and that gives us the starting point. But from a revenue point of view, if you are tracking what that means, that is not a hockey stick, that is merely recapitalization, but it is significant from a strategic point of view, because it is a very different relationship where you move from annualized contract to a multi-year ECB partnership. So we are going to continue to deliver, we are going to continue to add values to Amgen scientifically and I am sure I am confident that is a backbone to good growth into the future.

**Paresh Dave:** So basically the benefits of the longer-term contract will be actually seen from next quarter onwards or maybe from fourth quarter onwards and it is not yet being reflected. Does that mean that Amgen would not be part of the \$250 million guidance, is that correct?

**Jonathan Hunt:** No, it would be included, because Amgen is yet another driver within the business. \$250 million guidance was a long-term stretch and strategic target. It is the target we intend to hit doing what Syngene has done repeatedly over recent years which is extend new relationships, grow the top line, deliver scientific excellence to our clients, but I am not going to slice and dice around what is the third of it, it is all in target and you have to take it in a spirit that is given a number of years ago to really give you the market and investors a sense of what the mid-to-long-term potential Syngene wants. We are tracking well for that, but I am not going to pass comments on the individual elements.

**Paresh Dave:** The sales return component which was there in the last quarter of 5%, it was expected this quarter and now we are seeing it is expecting in coming quarters. So is there any visibility when can we expect, what is the hold up?

**Jonathan Hunt:** My expectation is in the next quarter, so in 3Q. I actually think if you go back to a quarter that sales return we said it will take one or two quarters to reprocess that and deliver back to the clients. So from my point of view, internally it is panning out as we expected. So I would expect us to begin shipping that back to the clients during the quarter, we are now in the third quarter and we will recognize the revenue as that happens.

**Paresh Dave:** Sir, if you could throw some more color on what exactly happened in the Manufacturing division because we understand there has been some slowdown but what exactly happened, what is the reason behind it, that will be appreciated?

**Jonathan Hunt:** I would split that into two ways. The sales return which is a specific event where we are making sure we deliver a specific batch to a client on time and we need to do some reprocessing and that is ongoing. That is separate, I think the comment that Chini made during his introductory comments, were just flagging up with, in this quarter we have seen a little bit of softness in the performance within the chem development service line and then some of that I am sure is cyclical and some of it we need to make sure it is not structural, but we are just changing the nature of competition going on internally in the market, but I also think it is fair in Chini's comments which is little way to call a trend, maybe slacking up and saying, this is where we are watching from a management perspective and I would be much happy to review that at the end of the next quarter where I will have a little bit more of sense to what is another trend obviously a single quarter fluctuates. Something to watch, rather than something to analyze at the moment.

**Moderator:** Thank you. The next question is from the line of Rohit Ojha, an individual investor. Please go ahead.

**Rohit Ojha:** I have one question around the two molecules that we had agreements in place. How are these progressing? Eventually when all our facilities are online, will this be a supply of API or complete formulations?

**Jonathan Hunt:** When I look at Manoj and ask him to give you sort of retrieve where we are with that sort of growth from clinical scale manufacturing into more commercial scale. The only thing I am going to say just on the very specifics of first part of your question is an update on the number of molecules that highlighted in that strategy. It is worth remembering that these are not our molecules, we are a service-based company, we do not develop our own pipeline, we are nearly doing it on behalf of others. So it is always an arm's length, it is what is going on in our customer's pipeline. We had no expectation during this quarter that there would be any events and that is exactly how it has panned out. So almost absence of an update is exactly what we are expecting.

**Manoj Nerurkar:** There are two molecules that we refer to. We continue to supply these two molecules to our partners in the kind of quantities they are looking for. As we had mentioned in the last few quarters, these are really early stages for these companies to have the supply being commercialized in the market. Like anything else, it is going to take them a bit of time we presume and from our discussions with them. Once these molecules to really take off, if they take off, it all depends on where these molecules are, which therapeutic area they are in, what kind of competition are they facing in the market in terms of other similar therapeutic areas so on and so forth. The molecules that we are making are not the formulations, they are the chemical entity. The facilities that are coming on board in Syngene, the CAPEX update that we gave earlier, those are not related to these molecules, whatever infrastructure is required we already have that infrastructure in place to cater to the manufacturer of these two molecules.

**Rohit Ojha:** There is a substantial jump in EBITDA margin even if we exclude the other factors. You mentioned that excluding these factors, it was 35%. So was this due to a revision in our billing rate or what contributed to the expansion in the margins?

**M.B. Chinappa:** As I indicated, the 35% EBITDA margin includes Rs.6 crores gain on the hedging and if we take this out the margins come to 33% which is in line with what we have reported in previous quarters.

**Jonathan Hunt:** I think it is clear, we are doing our best from the presentation of our results. We had very strong performance in terms of revenue growth, even stronger performance when we look at the various measures of profit, EBITDA and profit after tax. The engine is running a little bit hot at the moment and some of that is because of the non-operational financial gains we are getting in the ECB that is sitting in the bank and driving the interest income line and usually that is added to that, there is also the benefit we are getting from the hedging policy in the currency gains. Stippling those benefits out, you still end up where the EBITDA margins in the low 30s, profit after tax margin range of 20, they are top tier in terms of the industry performance, absolutely in line with where we are getting into the long-term and I think that probably is the best guidance if you are looking into the future of where Syngene should be and could be as a business.

**Rohit Ojha:** I have read many of the competitors mentioning that being closer to the customers geographically also helps CRO a lot. So would Syngene at any point of time evaluate such a move of reaching closer to the customer location or not?

**Jonathan Hunt:** Yes, I think you could segregate that. CRO is a term that covers an awful lot of different business models in different sort of service provisions. The obvious one if you think of the CRO industry and some of the largest companies globally, some of the big US public, and European public listed CRO are focused on clinical development that doing human testing studies where by the nature you have to be close to the customer and you have to be very-very geographically distributed because you are running clinical trials sometime reasonably 20,000-30,000 patients' studies run in 50 different countries around the world. So that is a very different business model. Syngene does a little bit of this but we only do that in India and it is not the co-driver of what we do. We are much more in science and science in laboratories and therefore they added value to the intellectual output and frankly you can deliver that on a global scale from sitting here in India because it is a back design stage and then you can share that information and that knowledge with your clients very-very quickly via digital technologies and shared service system. So I am not sure we have to be close to the clients geographically from that point of view for our model. The other comment I make of course is with the dedicated research centers which is about a third of the business, the client actually moves close to us, so they are here embedded in our campus here in Bangalore. So it is really western clients, US and Europe moving into India rather than us having to move to them. So I think from that point of view, that operational connectivity closeness we achieve.

**Manoj Nerurkar:** Just to add to what Jonathan just said, as you know, we work with 8 out of top-10 pharma companies and none of these strategic partners that we have in place have expressed any need on our part to set up any kind of infrastructure or

laboratories that go on in the geography in which they are based. So we do not see even from that perspective anyone really asking for this. Now, on the top of that, “Will we ever set up something outside this?” We look at acquisition opportunities like anything else. Are there capabilities that we do not have available with us and therefore does make sense to look at something out there. That is an ongoing exercise which is geographically agnostic and we will continue to do that regardless of where the company is based, as long as the capabilities that they have are synergistic to the capabilities that we offer.

**Jonathan Hunt:** Just on Manoj’s last point, that sort of external focus understanding what technologies are evolving on a global basis, whether this business is normal, that was not some cleverly availed input you should expect us to execute some secret stealth programs of acquisition. I think this statement could be retracted.

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

**Charulata Gaidhane:** I missed on the percentage for the Dedicated Centers contribution to revenue.

**M.B. Chinappa:** It is just above a third of our revenue for the quarter. Discovery Services contribute a quarter and Development and Manufacturing just below 40.

**Charulata Gaidhane:** My second question pertains to the other comprehensive income. What does that contain?

**M.B. Chinappa:** The other comprehensive income is largely leading to some additional billing dealing to our Dedicated Centers. That has been there in their past.

**Charulata Gaidhane:** No, the other comprehensive income of 303 million is not a part of the earnings for the quarter?

**M.B. Chinappa:** The other comprehensive income that adjustment is the MTM gain on a designated FOREX contracts which get passed to the balance sheet.

**Charulata Gaidhane:** Therefore, it is not a part of the earnings?

**M.B. Chinappa:** Yes.

**Charulata Gaidhane:** Pertaining to the Mangalore regulatory approvals. Has the company received that?

**Jonathan Hunt:** We got that, that moves us to the next stage is to continuing our facilities available for site preparation and then we will be moving into design phase, finalizing the final requirements in terms of the types of manufacturing facility capacity

that we are putting to Mangalore and then we move into the building phase as we flagged up to, we would expect that building, qualifying, validating and getting it ready for operations, we will take actually end of FY19.

**Manoj Nerurkar:** Just to add to what Jonathan and Chini said, I think you can appreciate the fact that the (EC) the Environmental Clearance is just one of the many clearances that we will need along the way as we go along with design and then commissioning of the facilities and so on. As we start our design, start build up, we will continue to look for some of these and get the facility ready by end of FY19.

**Moderator:** Thank you. The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.

**Vipul Shah:** Can you throw more light on your Informatics acquisition... what are the revenues and what are their financials and how strategic it is to Syngene, it is more on data analytics side, so how it fits into our business model?

**Jonathan Hunt:** I think it is important we should talk a little bit about that; the bioinformatics in this case is the mix of scientific capability, the ability to manage big data and managing that sort of analysis and bringing those two together. It is a strategic and important step forward for us, but it is a small one, in particular, financial elements of that transaction were not disclosed in the public domain, it is suffice it to say it was relevantly small given the size of Syngene and it is links to a group where the 23 bioinformatics scientists the talented group joined Syngene which, is the effort that we are looking forward to, to get the right people with broad experience, adept knowledge around bioinformatics, very-very good reputation on a global basis in the marketplace and from that we can then get involved to work to Syngene offering a standalone service line to our clients. They are probably more important in the near-term, they can start adding their capabilities to many of the projects we are already running across the organization where they can help us synthesize, analyze, interrogate, manipulate and really get much better understanding of some of the scientific data that we generate for our clients. So that will be the priority over the next couple of quarters is to make sure that is working well, that is integrated, that is landed and that we connected them into all of the work we do across the business.

**Vipul Shah:** So when do you expect to integrate it fully with Syngene operations?

**Jonathan Hunt:** That has already happened and is ongoing now. Kas leads that group, is already meeting clients and explaining to them about how we can add bioinformatics to the things that we already do on their behalf within Syngene. So they are up and running and operational, we will move very quickly on that.

**Vipul Shah:** So from what you have said sir, should I assume that it is a capability acquisition, it is not a revenue acquisition?

**Jonathan Hunt:** Yes, that is probably the best way to summarize it.

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

**Prakash Agarwal:** Sir, a question on this Mangalore facility I heard on approvals have started, so if you could just give us broad level what are the approvals that have come, what is the next level that we see in the next six months' milestone and just to reiterate when do we really see it completing and the business to start from the Mangalore manufacturing facility?

**Jonathan Hunt:** I think the best way to look at that is start with the end of FY'19 is the point of which, that facility should be built up and running and be open to business in terms of delivering services to clients that we can build the revenue base from. So it is a long-term play. I do not think there is a milestone that we probably do in the next quarter. What we are looking for this quarter is to clear the environmental clearance, get certification, start developing that site. Now, we are going to a multi-year build, design and build phase, ready to have fully operation and manufacturing facility Mangalore as I said by the end of FY19.

**Prakash Agarwal:** \$100 million that we had raised, so has that started to get utilized or is it going to get utilized now with the environmental clearance and the construction going to start?

**Jonathan Hunt:** I would not look at it as in one pocket money from Mangalore and the other one is trending for all the other CAPEX in the business, it comes as a whole, it is a US\$200 million program, and we are \$66 million into that, we have built a number of facilities and capabilities when we go online. The remainder will run this year, next year and into FY'19.

**Prakash Agarwal:** I understand that but I was trying to understand how long or how sustainable would be the interest and income piece given that it is coming from the \$100 million is?

**Jonathan Hunt:** We have already started drilling in some of these facilities. I would imagine the sort of interest income we have seen in the first half this year is a reasonable predictor or at least a good starting point for you to think about it is the remainder of this year when we expect that to diminish or blend throughout next year.

**Prakash Agarwal:** I think I missed the opening remarks and there was some question asked on the first half growth being in mid-teens and for us to achieve the \$250 million mark, we still need 20% growth. So are we still maintaining that 20% growth or how do we expect the second half to be?

**Jonathan Hunt:** From my perspective, the \$250 million target was the total reported revenue target and the reported growth for the quarter on that basis is 22%. So it seems to be highly adherence with the sort of run rate we need to achieve to hit that number.

**Prakash Agarwal:** Yes, but the first half is around 15-16%?

**Jonathan Hunt:** No, on reported basis, it is adjusted and take out the interest income expense and maybe remove the currency gain.

**Prakash Agarwal:** So this \$250 million what you are saying is would include the interest income as well?

**M.B. Chinappa:** \$250 million guidance is for FY18. As Jonathan just mentioned we would see a reduction in the interest income and core sales growth will need to pick up to help us meet the target.

**Prakash Agarwal:** The question was more to understand the growth trajectory that we have seen about 15-16% growth in the first half. We expect the sales reversal to kick in Q3. So do we get back to the 20% growth mark which we have seen in the past so many quarters?

**M.B. Chinappa:** We would like to achieve \$250 million and operational income has to step up. Like I said in next year we will have limited interest income. So \$250 million is the reported revenue target for next year and just clarifying that interest income would not be a big component.

**Prakash Agarwal:** Any color you would give on fiscal '17 also would have helped given the soft 1H on top line at least?

**M.B. Chinappa:** We are not giving guidance for FY17.

**Prakash Agarwal:** If you could make us understand the hedging gain that you talked about Rs.6 crores, so how sustainable is that – it is the function of the hedges that we have versus the current spot rate, is that right understanding?

**M.B. Chinappa:** Yes.

**Prakash Agarwal:** So if currency remain stable, so that impact will be negligible going forward?

**M.B. Chinappa:** Yes, we would expect similar gains in the coming quarters because our hedge rates are above the current spot.

**Prakash Agarwal:** So 33% is more sustainable margins going forward?

**M.B. Chinappa:** Excluding hedging gain, yes.

**Prakash Agarwal:** On the gross margin side, we are seeing some improvement for the last two-three quarters. So would it be a function of lower manufacturing as you mentioned in the opening remarks and with this manufacturing coming back we get back to our original 72-73% gross margins?

**M.B. Chinappa:** Prakash, I suspect you when you are talking of gross margin, you say net of only material and power cost? In that case, your deduction is right that slight dip in the manufacturing services is we will be making in lower material cost and hence higher margins. But we look at our business really from a gross margin perspective as net of material, power and employee cost, if we take off this, there is a slight improvement which is also reflected in the overall EBITDA.

**Prakash Agarwal:** This 50,000 sq.ft. you have already started work on or commercialized and commissioned, what is the status of the remaining 150,000 sq.ft., if you could give broad breakup when they go live?

**M.B. Chinappa:** Prakash, in a modular fashion. The Amgen facility is also in this building, so you can knock off the Amgen and now we are down to 125,000 sq.ft. yet to be commissioned over the next.

**Prakash Agarwal:** Can you give a broad breakup sir, when you expect another 50,000 sq.ft., by say end of this financial year or something?

**Jonathan Hunt:** No, we cannot, I understand the spirit of the question.

**Moderator:** Thank you. That was the last question. I now hand the conference over to Ms. Chanderlekha Nair for her closing comments. Over to you.

**Chanderlekha Nayar:** Thank you, everybody for joining us today's conference call. I hope we have addressed all your immediate query. In case there are any follow up questions, please feel free to get in touch with me. In the meanwhile, we look forward to see you again in the next investor call. Good Evening.

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

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Note: This document has been edited to improve readability