

Syngene International's Q4 and FY 2017 Conference Call

April 28, 2017

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. Chanderlekha Nayar: Investor Relations Team

Presentation Session

Moderator: Ladies and Gentlemen, Good Day and Welcome to Syngene International Investor Conference Call for Fourth Quarter and Full Year FY17. As a reminder, all participant's 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. Chanderlekha Nair from Syngene International. Thank you and over to you, ma'am.

Chanderlekha Nayar: Thank you, Janice. Good Afternoon, everyone. This is Chanderlekha Nayar from Syngene Investor Relations Team and I welcome you to Syngene International Earning Call for Fourth Quarter and Full Fiscal Year 2017. We have with us today, Mr. Jonathan Hunt – Syngene's CEO and the Senior Management team to discuss the Company's Performance. 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 risks pertaining to our business. The Safe Harbor clause indicated in our '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 Mr. Jonathan Hunt. Over to you, sir.

Jonathan Hunt: Thank you and Good Afternoon Everybody. Thanks for joining us today on our Fourth Quarter and Full Year Results Conference Call. I am sure by now you have had the chance to review our 'Financial Results' and 'Press Release'. So I will cover the financial results at a high level first, take for the fourth quarter and then for the full year and take the opportunity to make summary comments on the good progress we are making in some of against our strategic priorities. I will leave our CFO, Mr. Chinappa to cover the financials in more detail in his comments and then we will turn the call over to you, would be happy to take any questions that you might have.

Revenue for the quarter was Rs.315 crores, represent a 6% decline against last year's fourth quarter revenue of Rs.334 crores. While disappointing, this decline was expected due to the fire we had on campus in December 2016 as well as relatively strong prior year comparator performance. Looking at, EBITDA at Rs.124 crores, was up by 3%, while profit after tax is Rs.78 crores which was pretty much in line with the fourth quarter of last year. Clearly, the key theme for the fourth was the impact of the fire on our Chemistry and Chemical Development businesses. As I mentioned in my comments last quarter, the facility damaged by the fire represented about 10% to our total infrastructure and is expected to remain non-operational for most, if not all, of FY18 as we rebuild and refurbish the facility. We have successfully relocated the ongoing projects to other facilities on the campus, however, this has consumed nearly all of the chemistry lab space that we built to support growth in FY18, and clearly this factor will act as a natural limiter on growth in our Discovery Chemistry business for the coming year. Other businesses however should be unaffected by this.

Let me now summarize some of the other more positive events of the fourth quarter. We were delighted to sign another dedicated R&D center partnership, this one with Herbalife Nutrition. As you know they are a very dynamic organization and are amongst the global leaders in what they do. So it is a real pleasure to be partnering with them. That is Syngene's fifth such dedicated R&D center and the second in the Nutrition space. The center is a little smaller at 3,000 Sq.ft. than some of our more established centers but India is one of the major focused markets for Herbalife and their setting up an R&D facility together with Syngene is an indication of strategic relevance of this market for Herbalife and we look forward to working with them and helping grow their business.

Our Formulations business also took an important step forward in the quarter with the completion of the capacity expansion project. This new facility is part of our ongoing US\$200 million CAPEX investment program and will significantly strengthen our formulations manufacturing capacities. It is spread across about 17,000 Sq.ft., and the facility has got the capability to manufacture range of solid oral dosage forms and that is now fully operational, ready for business and ready to drive growth in FY18.

Turning to Regulatory Matters: Continuing our track record of good regulatory compliance, I am happy to report that our clinical development facility has successfully completed another US FDA audit during the quarter. It takes us six successful US FDA audits in the last three years. Of course, I extend my congratulations to the entire team for delivering that.

Finally, let me make a comment about progress in our Biologics business in the quarter. I am sure you know over recent years we built what we believe to be a differentiated capability in the Discovery, Development and Manufacture of Biologics and I am delighted to tell you that we signed a strategic agreement with Canadian biotechnology company in the quarter to develop five new antibodies as well as then to go on and manufacture those antibodies for clinical studies. Biologics is a high growth area in the industry and we made significant investments in strengthening and expanding our capabilities in the last few years. This deal really is a good signal that it was good investments and we are competitive and an attractive player in this area.

So just to sum up the quarter, while revenues were disappointing, this was not unexpected given the impact of fire on our Chemistry businesses. We continued to manage low cost during the quarter and the boost we have received from interest income has delivered solid profit performance of both EBITDA and PAT levels. That is more important for the long-term. The quarter also saw some positive steps forward in both our Formulations and Biologics businesses.

So let me now shift gears and turn to the full year results: On a full year basis, revenue growth was better at 14%. Overall revenue was Rs. 1,272 crores, that is an increase of Rs.159 crores from last year's level of Rs. 1,113 crores. I leave Mr. Chinappa to give you more color on the moving parts and the underlying performance during the year.

If we look at strategic developments in the year, investments, cost management through the year, we saw further expansion of our dedicated R&D center vertical with the addition of two new centers, the one I mentioned in the fourth quarter which was Herbalife and then much earlier in the year with Amgen collaboration. We continued to make investments in building new capabilities, in particular, I'd highlight the investments we made in our new formulations facility, enhancing our Biologics capacity, of course the addition of Bioinformatics through Strand acquisition and as well as the continued strong growth we are seeing in Discovery Biology, all are important hallmarks for the coming year. These new capacities are now on-line and ready to drive future growth.

I think through the year we manage cost well and you can see the benefit of this good cost control in the operating margins and the profit performance for the year where EBITDA and PAT growing 24% and 19% respectively.

So just finally, let me make a few high-level comments about "Outlook for FY18." Despite the disappointments of the Q4 revenue performance, full year FY17 overall delivered growth and more importantly saw us take some important step forward in delivering on our strategy. The investments we made in Formulations, Biologics, Bioinformatics, Oligonucleotide are all now fully operational and ready to be drivers of new growth. Combined these elements with the signing of the new dedicated center partnerships and the strong performance we saw in Discovery Biology in FY17, I think you can see that we have some very solid platforms set to deliver what I expect to be improved growth in 2018.

So let me turn the call over now to our CFO, Mr. Chinappa to take you through the more detailed financial performance.

M.B. Chinappa: Thanks, Jonathan and Hello everyone. Let me start with the "Results for the Fourth Quarter", then move to the "Full Year Performance" and cover the "CAPEX", "Insurance" and also the "FY18 Outlook".

Our performance for Q4 was lower compared to a relatively high Q4 FY'16, mainly on account of the fire incident. We have recorded 6% decline in revenues from Rs.334 crores in Q4 FY16 to Rs.315 crores in this quarter. Overall, we have been able to minimize impact of the fire by getting some of our businesses operating on a double shift basis to maximize use of available capacity while in other areas where no alternate facilities are available, new facilities are being set up and this will be available in Q2/ Q3 of FY18. EBITDA at Rs.124 crores, is up 3% as compared to Q4

FY16 and profit after tax was marginally lower at Rs.78 crores compared to Rs.79 crores last year. EBITDA margins are up at 39% while PAT margins increased to 25%.

As you would have noticed, the results include a gain of Rs.24 crores on interest income in Q4 FY17, mainly stemming from the unutilized ECB and cash reserves. Associated with the interest income is finance charges of Rs.3 crores and income taxes of Rs.7 crores. Adjusted for interest income the EBITDA and PAT margins for the quarter were 34% and 22% respectively, largely in line with expectations.

As regards the expense line items, you have noticed that there is a marginal decline in the material and power cost as a percentage of revenues from 30% in last year to 28% in this quarter. This is largely due to the change in sales mix. Employee cost as a percentage of revenues is up from 22% last year to 25% this quarter. Other expenses are down on account of gains in our Forex contracts which also helped neutralize the impact of appreciation in the rupee. The effective tax rate is 13% for the quarter in comparison to 15% last year's quarter with benefits stemming from investment allowance on new CAPEX. In line with the shift to the new IND AS, the Q4 FY16 PAT is higher by Rs.12.5 crores while the full year FY16 PAT is higher by Rs.20 crores. This adjustment is mainly due to the mark-to-market adjustment on forex contracts.

Moving on to the Full Year Financial Highlights: Revenues grew by 14% to Rs. 1,272 crores compared to last year's revenue of Rs. 1,113 crores. Excluding the interest income, the revenues from operations grew 8% in FY'17 to Rs. 1,201 crores compared to Rs. 1,107 crores in FY'16. The slowdown in growth in FY'17 is mainly on account of the weak start at the beginning of the year and the fire incident that impacted Q3 and Q4 sales. EBITDA grew 24% to Rs.478 crores compared to Rs.387 crores. EBITDA margins improved to 38% from 35% and net profits grew 19% to register Rs.287 crores compared to Rs.241 crores in FY16. Total interest income in this financial year results about Rs.71 crores and as I mentioned earlier this stems largely from the interest earned on the long-term ECB loan of \$100 million that we had drawn in March 2016 and invested in bank deposits, pending deployment in capex. Associated with interest income is finance charges of Rs.18 crores and income taxes of Rs.20 crores. Excluding the interest income, EBITDA is Rs.407 crores compared to Rs.381 crores with EBITDA margins at 34%. The profit after tax margin is 21% in line with FY16.

Now, moving to ongoing investment program of USD200 million, we have overall invested \$79 million till date and will continue to do phased investments in the future. We are pleased to announce that the commercial manufacturing API facility at Mangalore would begin construction this quarter and is expected to be operational in FY20. Our net cash position as at March 2017 is Rs.235 crores.

Also to note that during the year, we have recorded an exceptional loss of Rs.80 crores on account of the assets damaged by the fire incident and recorded exceptional income of an equivalent amount being the minimum insurance claim under our all industrial risk policy. We expect to complete the full assessment of the losses in this quarter and file our claims in Q2 FY18. As indicated previously, we believe we are adequately insured and expect full recovery of the losses incurred on account of the fire.

Turning to our FY18 Outlook: We expect the good momentum in our Biology business and the new investments in Formulations, Bioinformatics and Biologics to help in rebound of sales growth towards 20% levels. In FY18 we would look to increase spend in safety compliance and business development. While this will impact margins by about 2-3% this year, we expect these initiatives will pay off in the medium-term.

Finally, moving to FOREX: The rupee in the last few months appreciated significantly against major currencies. About 96% of our CRAMS revenues are exported with 93% priced in US dollars and 3% in Euros. We expect our hedging policy to protect us against the rupee appreciation in the short-term, while in the long-term we look to revise our pricing, increase efficiencies and optimize costs to help maintain our competitive position.

With this, I would like to hand over back to the operator and would be happy to take any questions.

Q & A Session

Moderator: Thank you. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead

Prakash Agarwal: Just trying and understanding this 20% growth guidance of fiscal 2018. So in the past we have spoken that 20% of the business has been impacted. So, if you could just run through the rough math's of the 80%, what is the growth expectations in the Chemistry, Biology divisions and the new capacity that you have added and how you expect the remaining 20%, of which I think a part of it is already recovered to grow?

Jonathan Hunt: If we just take a step back and I think the way we have positioned it. The fire impacts principally the Discovery Chemistry business. I think we said that about 10% of our infrastructure, and 20% of our total revenues. If you look at the rest of the business, really the point I was trying to get to, throughout FY17 we are investing in new capacity, new infrastructure, particularly in Formulations, so we have got 17,000 Sq.ft. Formulations center, which is now online from February. So that gives you a year-over-year growth effect because we just did not have that capacity, that headroom for growth in the prior year. Similarly, we are seeing expansions in Biologics and you get the full year effect of the Bioinformatics acquisition as well. So there are some good new drivers in there, whether it is either from new capabilities we are bringing into the business or there is from expansions of existing capabilities. Now on a segmental basis to your question, we just do not break it out, it is part of our overall approach in terms of our reporting, is we do not give vertical wise sales level guidance. But I think that gives you at least some sense of where in the business we think the upside growth will come from. So the performance on revenue in FY17 is 14%. Our expectation is we bounce back from that and get back up towards the sort of 20% or so levels we had enjoyed in previous years. How far at 20% or beyond that we will go? We will update you as we go through each quarter. I think it is a little bit too early in the year given the moving parts to be able to call that was any great position. Towards 20% and beyond that are perfectly incredible target I think.

Prakash Agarwal: Second question for Chini sir is on the interest income we saw that spike. Since we will be utilizing the cash for the ongoing CAPEX program, how do we see the interest income for the rest of the year sir?

Jonathan Hunt: You are right; we have had a large ECB deposit parked in the bank. It is there to underpin part of our longer-term multi-year strategic development as we expand beyond principally a CRO business centered on Discovery Services and integrate through the value chain, so we become a fully-fledged CDMO as well with our manufacturing facility alongside our discovery capacity. So I think strategically we have understood it. We have now reached a point with the Mangalore plant where we have got the environmental clearances that we need, we have

done most of the design work that we need. So we are good to go. So I think as Chini mentioned in his speech, this quarter we should start doing that ground breaking and developing that site. But Chini, could you give him some sort of sense how that money would be invested during the year and therefore what it means to interest income.

M.B. Chinappa: Prakash, it is obvious, as we go through the CAPEX spend, we will see a steady reduction in the deposits and the other interest income.

M.B. Chinappa: It is part of the FTE program, but it is not part of the dedicated center.

Prakash Agarwal: The question I was actually trying to understand what would be the CAPEX for the year?

Jonathan Hunt: The run rate we are up to \$79 million of the \$200 million so far. I think we had originally said to you that we saw that the Mangalore plant could be up to about half of that. That is going to be spread out over the next two and a bit years. So you can sort of impute quarter-on-quarter run rate from that. It is probably the best. We do not actually give you the particular CAPEX guidance for the year.

Prakash Agarwal: You mentioned that the facility will be operational by 2020. So originally, I think was it planned for 2018-19 and is there some delay?

M.B. Chinappa: The environment clearance came through in October 2016 We are looking to start the project in this quarter and generally it takes about a two-year timeframe to set up a new Greenfield project.

Jonathan Hunt: It is not really delayed by very much. The delay factor was waiting for the environmental clearances. But it is a matter of months rather than multiple years which is I think is the math you got. It almost goes over year end and becomes operational early in FY20

M.B. Chinappa: End of FY19 to the beginning of FY20.

Prakash Agarwal: What I understood correctly is after environmental clearance, typically take two years to build that kind of big facility?

M.B. Chinappa: Yes.

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

Nitin Gosar: Wanted to understand more on the Biologics program that we have a contract from Canadian biotech?

Jonathan Hunt: It is just a sort of reprise to the high-level comments I made earlier and then I think Manoj might have a little more detail on that. It is a deal with the Canadian biotechnology company. It is five antibodies from the start of discovery development side and then of course the second part of that is to make clinical scale manufacturing batches. But may be Manoj could throw some more light on it, as to how we position ourselves with this deal.

Manoj Nerurkar: If you look at our Biologics strategy, it is in line with what we are seeing in the market, that is Biologics are becoming important therapeutic intervention in every large company's portfolio, in fact, in most of them now Biologics constitute larger part of their portfolio than the small molecules. Looking at this trend for last several years, Syngene has been developing capabilities in Biologics Discovery, Development and Manufacturing. The recent plans that both Chini and Jonathan talked about is in line with that strategy which is coming onboard. Now the strategy partnership that we have established with the Canadian biotech company, will allow us to develop five of their monoclonal antibodies, and as a part of that development which is mainly process development will follow clinical manufacturing as well because as we develop that process, they will conduct clinical trials in parallel and the materials that is required for clinical manufacturing will come through the batches that will make for them under GMP. So it is a significant achievement in terms of having these five molecules together and it really validates our capability in biologics as the leader in India who can offer these kinds of services. To the best of our knowledge, there is no one else in India who can offer this kind of end-to-end Discovery, Development and Manufacturing capabilities in this particular area of biologics. So it is a very important strategic achievement to be able to do this for a company that has a pipeline of Biologics molecules.

Nitin Gosar: If we take first part of the overall contract that is process development, typically how much time it might take to develop the process part for the five molecules that we are talking about?

Manoj Nerurkar: It all depends on the complexity of the process, but anywhere between 12 to 15-months is what it typically takes.

Nitin Gosar: So first part of the contract says roughly around 18-months maybe and then how the things progress on the clinical part the second tranche of the contract and get opened up?

Manoj Nerurkar: That is about the right way to look at it, yes.

Nitin Gosar: Would you be sharing the revenue breakup in terms of Dedicated Center, Manufacturing, Research part, how the revenue split is looking on an annual basis?

Jonathan Hunt: Are we changing our reporting structure? No, we did not have plans to do that, there was no specific question behind that.

Nitin Gosar: One last clarification on the CAPEX side. CAPEX done for the current year is around \$59 million. Is this what mentioned?

Jonathan Hunt: No, \$79 million is total spend against \$200 million. We have spent \$79 million, that is the total of last year and this year's capex.

Nitin Gosar: The INR appreciation part, I believe the pricing power that we have is roughly in the range of 3-4% on annualized basis and the kind of INR appreciation we are seeing in recent time, do you think we have some bit of elbow room to go back to customer and ask for higher pricing if required?

MB Chinappa: Normally rate increments in US dollar terms are in that range. That is the kind of an increase that international customers are used to in paying, roughly equal to annual inflation. Now with the rupee appreciation, one would need to ask for a higher rate increase to cover for both inflation and the rupee appreciation. Like I mentioned we have FOREX hedges, which protect us in the near-term but in the long-term we will need to increase our rates if the rupee remains at this level.

Nitin Gosar: So clients are open to this kind of scenario where INR appreciation is for high end, you can go back and negotiate it out?

MB Chinappa: On an overall basis, we believe we could push through cost increase and the impact of the rupee move.

Moderator: Thank you. The next question is from the line of Punit Kumar from Reliable Investments. Please go ahead.

Punit Kumar: I have a question in terms of three major events happened during the last year. Two great ones like Amgen coming in which is a big breakthrough, Herbalife was a good achievement as Mr. Hunt said, third was the fire incident. But very surprisingly the fourth quarter has been a major disappointment. I would like to know impact of all these three things and fourth what is the existing client business that you had earlier? Even the third quarter the margins had come down compared to the kind of volume growth that we saw?

Jonathan Hunt: I think it is a reasonable summation of the three key events in the year. I agree with you, as I said in my prepared statements and I think in the press release, we are also disappointed with the fourth quarter revenue performance. I think the expectation now, the priority for the management team in the business is to bounce back from that. I think that will have a number of drivers to it. One element of that is to refurbish and replace the lost capacity in our Discovery Chemistry business. I think that is going to take most of the year to do that because you just cannot build that quality of infrastructure any quicker, but we will move as quickly as we can with that. I think it is incumbent on us to make sure that the rest of the business ...again, I pointed to a number of positive steps forward we took during the year the Formulations, Biologics, in Discovery Biology, Bioinformatics, Clinical Development, all of those need to step up and return back to the sort of growth rates that we had enjoyed previously. I think it is possible. Clearly that is the expectation we have as management. We will update you as we go through the year on how we are progressing against those targets.

Punit Kumar: We are basically competing with Japan and US. Am I right?

Jonathan Hunt: Not against, I think the key markets for us in many ways where our clients are globalized, so a large proportion of our clients are US-based companies, but also a large number in Europe, we have some in Japan. I think in some ways the competition often comes from other Indian science-based companies, some in China, and then of course we also think because Syngene operates at global standards, we also compete with many of the western companies that provide CRO type services, a number of those in the US and a number in Europe. So the competition is often local in India or China, a little bit in Europe and the US. The clients are much more weighted towards the western world like Europe and the US.

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

Charulata Gaidhani: I wanted the breakup of revenues into Dedicated Center, Discovery and Development & Manufacturing for Q4 and for the full year?

Jonathan Hunt: I think you know that is not our practice to break out on a service level basis, but let me try and be little bit helpful. If you take dedicated centers, it is about a third or so of our revenue. Actually if you were to use that as a rule of thumb, you can do that all the way across the business. About a third of the business is Dedicated Center, about a third of it would be in the Discovery Services, and about a third of it would be in the sort of Chemical Development and Manufacturing space. That gives you an approximation.

Charulata Gaidhani: The company's exposure to dollar and euro, what per cent?

MB Chinappa: As I mentioned 93% expressed in dollar terms, 3% in euros and 4% in sold locally in INR.

Charulata Gaidhani: There are some derivatives assets in the balance sheet?

MB Chinappa: Yes, we have put options contracts on our projected receivables and we also have interest rate swaps on the ECB loan.

Charulata Gaidhani: Are there derivative contracts the same like last time or have the terms changed?

MB Chinappa: Same as last time, but IR swap was new, so it was not there in the last balance sheet. The IR swap is basically a shift from floating to fixed rate.

Charulata Gaidhani: How much will be the CAPEX spend in FY18 and FY19?

M.B. Chinappa: We expect somewhere between \$50 million to \$70 million altogether across both Mangalore, the Biologics plant and other capex projects in Bangalore, that is in FY18 and if we look to FY19 we would look to complete most of the \$200 million CAPEX program.

Charulata Gaidhani: From these new formulations facility that has been commissioned, what are the peak sales expected from this and by when do you expect to achieve that?

M.B. Chinappa: Really cannot comment on that, Charulata, we do not give unit wise detail projections.

Moderator: Thank you. The next question is from the line of Anurag Mantry from Jefferies. Please go ahead.

Anurag Mantry: Just one data point question; if you can just tell me the revenue share from the top-10 clients for the full year?

Jonathan Hunt: That is about 70% if you did it by the top-10. In terms of sort of concentration ratios that was the underlying thought behind your question, we are seeing over time a gradual decrease in the concentration ratio if that is what you are looking at. I would make another comment, which is intuitively even though we are disappointed with the fourth quarter, revenue performance actually the overall FY17 performance was a little bit behind our expectations. We have seen the number of clients that we serve, grow quite well during the year, in fact, it has taken us up towards about 300 clients in total, this time compared to last year we were probably about 255 to 260, something like that. So the overall growth in FY17 increase in the number of clients was bigger than it was

in the previous year. That is quite a good sort of health indicator for the longer-term, albeit you already heard my comments on the disappointment we have with the fourth quarter revenue performance.

Anurag Mantry: If you can just help us with the horizon of the options that you were just mentioning, is it for 12-months revenues?

Jonathan Hunt: So just in terms of the option hedging policy around currency, Chini, sort to go back and reprise what our overall approaches be and to some extent why we take that approach?

M.B. Chinappa: We have covered this in some of the previous calls. In our hedging policy we look to cover 100% of net one-year exposure; 50% to 70% of net year two exposure; and all our long-term fixed price contracts.

Moderator: Thank you. The next question is from the line of Ashi Anand from Allegro Capital. Please go ahead.

Ashi Anand: The question relates around Formulations CAPEX. So the 17,000 Sq.ft. of facility which is on stream from Feb, just wanted to understand as and when this is optimally or fully utilized, what kind of revenues can this generate?

Jonathan Hunt: I think that is the same question as one of the previous callers asked earlier and I unfortunately give you the same answer which is do not break out all publicly the revenues for individual service lines, all that long-term target but steer to helping you think about the business. The reason we shared that is that is the business that in recent years we are seeing good market demand for and we struggled a little bit to capitalize on it because we are running very close to maximum capacity. So bringing on new infrastructure from February of this year gives that business headroom for growth.

Ashi Anand: If I could just try and understanding this business a bit better, if we are looking at new clients for the CMO part of the business, would these primarily be kind of existing contracts that we have in Discovery, which are now getting commercialized or are we also kind of going out and trying to get pure CMO business?

Jonathan Hunt: Yes, I think it is both of those actually. We are in fortunate position because of the deep-seated capability in the organization around innovative discovery science, we quite often open up the opportunity where we held a client discover and develop a new molecule and then of course as it progresses, they need to find somebody to manufacture it and we are a natural partner for that, because once we build the right capabilities and infrastructure, because we already know quite a lot about the molecule because we helped in co-creative and co-inventive. It gives them some advantage as well in terms of risk management around tech transfers and there is a good high pathetic argument to be made that we would be able to do that more seamlessly and little bit quicker. So flowing from Discovery and to Development into Manufacturing makes some sense from a client point of view. At the same time, we would be very happy to go and talk to clients around that programs where we did not co-create or discover it and still be able to help. So you can access most of the services that we have at any point along that value chain. That is exactly the strategy.

Ashi Anand: In terms of the financials of this year more business in terms of gross block turnover, margins, ROCs and the facility, are these similar to what we currently enjoy or are any of these components significantly different?

Jonathan Hunt: Again, if you benchmark, if you look at across the range of CMO manufacturers, you see actually a very-very wide range of asset turnovers and margin structures. Our intention is to keep very closely aligned to what we think is sort of a co-capability and competence within Syngene which is around dealing with really innovative science. If you do that, if you flow from Discovery and to develop and to manufacturing around innovation, then you can see some very good margin structure. I think those would be in line where we currently operate. That is healthy for the CMO industry, pretty much in line with where we are, because as you already know, Syngene operates some of the better if not the best margins in the industry group we are in. So certainly would not expect it to be margin dilutive and then beyond that it is a more scalable business, because manufacturing offers some different scale benefits that you get in our Discovery Services business. So non-margin dilutive is the base case and we can argue that whether or not you can do better than that, but given that we have got two or three years to go before we build the infrastructure, we can leave that discussion for another day.

Moderator: Thank you. The next question is from the line of Ujwal Shah from Quest Investment. Please go ahead.

Ujwal Shah: In your comments previously, you did mention that you would like to improve the revenue growth rate in FY18. Now considering that the Chemicals Discovery part will take at least a year or two to set up, so are we seeing more significant traction happening in our other businesses that would help us nullify that impact out or how do we see...?

Jonathan Hunt: I think that is a reasonable way of framing it actually. The Discovery Services business has got a bit of a limited issue just because we have to put that capacity infrastructure was damaged in the fire, the rest of the businesses should not have that as a limit and actually many of them... and it was sort of the point I was trying to get to my comments earlier, many of them actually have got new capacity that has come on stream in FY17 and when repeating the comments I made earlier, we see growth signs in three areas including Formulations is one, Biologics is another, we are already seeing good traction in our Discovery Biology business. So the rest of the organization inside of Discovery Chemistry clearly has to fulfill its potential and if it does that we have got every reason to think we can push that growth rate on revenue up from the 14% we saw in FY17 and get it back up towards the more normal level of such a thing of 20% or so for Syngene.

Ujwal Shah: Just to understand this Biologics pie a bit more. So considering that it is very niche area and mAbs are any which way is difficult to handle substances, do we see that in terms of the complexity which is high, the margins from such business ought to be higher than our base or Chemicals Discovery business?

Jonathan Hunt: That is a good question. I think that is true but I am not going to direct you to a particular margin structures for each one of our service lines, but in general, both Biology and Biologics because I think you touched a question precise on the complexity and therefore the high added value there is, if you are skillful of being able to operate can offer some very attractive margins. I think if you go back and look at Discovery Chemistry, there are some areas in Discovery Chemistry where this high-added value because of some real innovation and there is some quite complex sub niches and skills, but there are other elements of Discovery Chemistry Services business that are becoming increasingly commoditized and very priced competitive. There is a difference there that the margins on

the sort of structures that you can get between Discovery Chemistry Services and Biology and that is one of the reasons why we work very hard at Syngene to position ourselves to be what we think, we hope is the leader in India in Discovery Biology Services, we certainly invested a lot in the people development and the capability and capacities that we have got and we see good prospective returns from that business.

Moderator: Thank you. We take the next question from the line of Rohit Oja, an individual investor. Please go ahead.

Rohit Oja: I just have one or two questions on the molecules in our pipeline. Can you just throw some light on how many molecules roughly if we have in Phase-2 and Phase-3? I know you had commented that we had high single digit in Phase-3. So any more details and are we progressing towards launching some of these, I mean, our clients?

Jonathan Hunt: I invite others to also make comments if they wish. I do not think there is very much changed since the last time we discussed it and that really is just to be expected. There are bids of drug development will take a number of years and since the last time you asked the question, I do not think there has been any material shift or change in that. So we are still waiting for most of those projects to meet, reach their next decision point which point we will know whether or not going forward is an opportunity to go forward with those ones or whether or not they fail to meet that technical expectations.

M.B. Chinappa: One clarity; we have high single digit number of molecules in late stage clinical trial, that is Phase-II and Phase-III. Not to be read as only Phase-III.

Jonathan Hunt: Pretty much the way to think about it is those molecules are highly likely to reach their key decision points around the same sort of build development time as we develop the Mangalore plant. We want to have that capacity available about a time that our clients needed. As you know that it will take a couple of years from now in terms of building Mangalore facility.

Rohit Oja: You had mentioned the three drivers for growth next year, Formulations capacity, the Biologics expansion and Bioinformatics. So can you throw some light on the Bioinformatics part?

Jonathan Hunt: I am going to ask Manoj maybe to comment a bit about Bioinformatics but let me just be a bit more precise in my comments. Those three things are not the only drivers, it just happens to be three where there is a new expansion or additions in FY18, that were not there for all of FY17. So there is a year-over-year change or we have invested in new expansion capacity. I still expect the rest of the business to contribute to growth. So it is I am not reducing the growth driver then to just those three, I am just kind of signaling that a little bit of an upside could be because of new capability. But do you want to talk about, Manoj, just around in Bioinformatics what we see in that and where we think it fits the industry.

Manoj Nerurkar: If you look at the Drug Discovery and where it is going, what you see is that genetics and genomics having a major impact on the way the drugs are discovered. What that kind of research does is that it spits out tons and tons of genetic data. The problem with lot of data is that you need to have a systematic way of evaluating and analyzing that data to get the right insights from the data to make the next decision. That is where Bioinformatics comes into picture, where they develop very sophisticated algorithms to look at the data that is being generated by discovery scientists to give them a clue as to where to go next, and therefore, it is an important area on one side. The another important area is there is lot of emphasis now on personalized medicine especially in the oncology in the cancer area where companies are looking at not just one drug for everyone approach but give you a customized drug or therapy solution to the specific type of cancer or a sub type. That is where Bioinformatics also plays a very important role. So to make the long story short, essentially it allows you to look at huge amount of data that is being generated and get not just analysis but real insights into the data to get better information. That is where we see a value of having this capability added to Syngene's repertoire because that allows us to offer Integrated Discovery Solutions.

Rohit Oja: Would it be right to say that Bioinformatics helps us deliver faster solutions let us say for our clients rather than Bioinformatics generating a separate revenue stream of its own?

Manoj Nerurkar: I think that is a fair statement to make and faster because it allows us to make smarter decisions and with fewer experiments, you can reach that decision that you want to reach, so in that context, it can be faster, yes.

Moderator: Thank you. We take the last question from the line of Mayank Hayanki from Axis Mutual Fund. Please go ahead.

Mayank Hayanki: I wanted to know more about the Biologics business which you recently started. So most of it or all of it is in the discovery side or there is some on the development side also pertaining to biosimilar or even on the commercialized Biologics?

Manoj Nerurkar: First of all, Biologics is not a new business that has been started at Syngene. We have been developing capability, we have put together a team for over last few years. The stage where we are now is where we a) help lot of our partners to discover new Biologics molecule and b) there are some of these molecules are independent opportunities that have entered development now. So looking at where the pipeline is, we made a decision about a year and a half back to invest into Biologics manufacturing plant which is just now coming on line shortly, and therefore it is important for us all to understand that it is not a new service at Syngene per se, but the quantum that it has reached is some critical mass and that has really prompted us to invest into a manufacturing plant. Another important part, the second part of your question about Biosimilar. Our expertise really... although Biosimilar is something we can definitely get involved in, our expertise is into discovering and developing novel biologics molecules, not the Biosimilar molecules, and that is where some of the differentiating capabilities that we have at Syngene come into play and that is how we can help our partners to discover and develop the novel molecules or novel biologics molecules, NBE is as they call it, Novel Biologics Entities.

Mayank Hayanki: So you would also expect some of the Discovery side projects to commercialize, right, and which is what is this the new capacity directed towards?

Manoj Nerurkar: If you think about it, it is a long process, right. Just to reconfirm, I am sure you know, but our Syngene's model is a service model. So the discovery also that we do is on behalf of our partners, we do not have

our own discovery programs, and therefore whatever molecules that we are helping our clients discover today, they will first enter development post discovery and turning successful development they will get into manufacturing that too commercial manufacturing. Now, during this development process, of course, we offer clinical manufacturing, the drug that is required to conduct clinical study. So it is kind of a continuum, just wanted to make sure when you talk of manufacturing, you are referring to both clinical as well as commercial manufacturing.

Mayank Hayanki: As of now, do we have any commercialized discovery innovator molecule with us, commercialize that has been launched?

Manoj Nerurkar: No, not at this stage, but we are definitely preparing towards that.

Mayank Hayanki: Secondly, if you could just summarize the business development activities over the last 4-5 months since the fire incident and how they are shaping up because I remember that is one area where Syngene was focusing on, it was developing capabilities in it, right? If you just throw some more light on how it has been since the fire incident and what is the outlook for new business addition or the ramp up of existing clients how is it going?

Jonathan Hunt: I think I can add some color and may be give you a little bit of flavor on the first part of that question, where we have been focusing our efforts around, be the capability, I think Chini made a comment that there are a number of areas this year that we intended to step up investment little bit of course in safety infrastructure making sure that we get that absolutely tiptop in terms of where we wanted, but also I think in our commercial area. The second part of your question, "Can I give you guidance on the business development pipeline?" That is not something that we would comment and disclose probably. But if I take the first part of the question, over the last year or so, we will be looking around how we can expand our footprint, some of it actually triggered by the IPO and becoming more visible standalone public company. We have to do a little bit more to build the brand recognition around Syngene. We certainly stepped up our presence in international meetings and conferences, certainly been more visible to many of our clients because of that. We are continuing and I think we continue to do it throughout this year to expand the headcount and the global reach of our sales, marketing and business development team. So

you can certainly from a financial modeling point of view you can expect to see us to continue investing in those areas, and then, of course, see how that plays out, the expectation is if we build capability in making investments during the year that towards the second half of the year you start to see the benefits of those sales and marketing activities, any new client wins and also revenue recognition as well. Hopefully that gives you some sort of a sense of where we are going.

Moderator: Thank you. That was the last question. I now hand the floor over to Ms. Chanderlekha Nayar for her closing comments.

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

Moderator: Thank you. Ladies and Gentlemen, on behalf of Syngene International, we conclude today's conference. Thank you for joining. You may now disconnect.