

## Syngene International Limited Q1 FY'17 Earnings Conference Call for Investors

July 22, 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
- Mr. Dinesh Iyer : Investor Relations Team

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### Presentation Session

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Syngene International Q1 FY'17 Earnings Conference Call for Investors. 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 would now like to hand the conference over to Mr. Dinesh Iyer. Thank you and over to you sir

**Dinesh Iyer:** Good Afternoon, Ladies and Gentlemen. This is Dinesh Iyer from Syngene Investor Relations team and I welcome you to Syngene International's Earnings Call for the First 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's 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 our Investors 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.

**Jonathan Hunt:** Thanks, Dinesh. Let me add my welcome to that from Dinesh, Good Afternoon to Everybody. Thank you for joining us on the First Quarter Investor Call. In next 10-minutes or so, I am going to give you a broad highlights on Operational Performance for the first quarter, after that I am going to hand over to Mr. Chinappa – our CFO and he will take you through the Financial Performance and then of course we will be very happy to answer any questions that you may have.

As you know, Syngene is primarily a Contract Research Organization (CRO). We are India's leading Discovery, Innovation Focus Contract Research Organization, and increasingly we are seen as one of the world's leaders in this size. Our services encompass integrated end-to-end Discovery Research and, Development of, Novel Molecular Entities across the broad range of industrial sectors spanning Pharmaceuticals, Animal Health, Nutrition, Cosmetics, Consumer Health and Biotechnology and we specialize in Discovery Services, Development Services and also API Manufacturing Services for innovative companies. Within each of those three areas we believe we offer our clients world-class capability and a distinctive competitive advantage.

Turning now to the business performance in the first quarter, FY'17 really started on a very good note for Syngene and as you can see from the 'Earnings Release' revenue growth was robust at 23% year-on-year. Key operational drivers in that growth were both our Discovery Services vertical and also our Development and Manufacturing Group. Within Discovery Services, we saw continuation of the excellent progress we saw throughout last year with strong growth in Discovery Biology. Likewise the Development and Manufacturing Group also continued the excellent momentum from last year into the first quarter of this fiscal year. So from a revenue perspective, the first quarter is pleasing. I think it gives us a robust platform for rest of the year.

If I look through the rest of the P&L, I am going to leave Chini to cover the details with his comments, but suffice it to say we continue to maintain good cost control and that was reflected in strong performance in both the EBITDA and PAT lines.

Other notable events for the quarter was the completion of two of our ongoing CAPEX projects. We are in the first phase of the Syngene Research Center and also brought on line a new Viral Testing facility. Both of these facilities increase our overall capacity as well as represents widening of our service offerings. So, just looking briefly at the specifics of each one of those, SRC is really a forward-looking capacity expansion to address the anticipated increase in demand for our services in the coming years. At peak the SRC level is a total area of 2 lakh sq.ft. and in its first phase we brought on line about a quarter of that. So, 50,000 sq.ft. of the plant total capacity.

Coming to the other Viral Testing facility, I am happy to tell you that it is now up and operational. As you may be aware, Biologics is a rapidly emerging area globally. There is an increasing shift from pharmaceutical drugs to biopharmaceuticals drugs and Viral Testing is carried out by Biologics manufacturers to detect virus contaminations in Biologics and other products. Regulatory filings for these new biopharma drugs also needs to include viral clearance testing report as part of that submission and Syngene's Viral Testing services not only augment our Biologics service portfolio but also strengthens our overall physicians' one-stop solution provider. That said, it is worth remembering that this cycle of Viral Testing is specialized in a somewhat niche area, so that will give you a sense of the scope that we see there. It is a small and specialized and I think something quite distinctive for us. The Viral Testing facility and Syngene Research Center, both are part of our ongoing US\$200

million CAPEX plan. My thanks go to the team for delivering these facilities on time to plan and budget. So overall I think we believe the first quarter FY'17 has begun on a positive note. I am confident of maintaining good momentum in the coming quarters.

So let me turn the call over to Mr. Chinappa and he will give you an Overview of our Financial Performance.

**M.B. Chinappa:** Thanks, Jonathan and Good Afternoon to all. As Jonathan said, we have had a good start to the financial year with revenues growing from Rs.236 crores in Q1FY'16 to Rs.290 crores in the current quarter, reflecting an overall growth of 23%. While the total revenue growth has been 23%, the core sales growth excluding other income is 18%. I would like to highlight that this growth is impacted by two items; each 5% – One is a 5% gain on account of the currency movement and there has also been a 5% reduction on account of the sales return of a product that has been returned for re-processing. We expect the impact of the sales return to reverse in the subsequent quarters. The increase in other income is mainly on account of the interest income earned on our fixed deposits. As of March, we had raised \$100 million of ECB which will be used to finance our ongoing CAPEX programs. This amount is currently parked in fixed deposits and will be invested in a phase manner over the rest of the financial year. As regard the expense line items, you notice that there is an increase in finance cost. This is linked again to the ECB borrowings. The increase in the effective tax rate is mainly on account of the increase in other income. Excluding interest and tax, you would find that the other cost line items are largely in line with the sales growth and higher other income is reflected in EBITDA and PAT both being higher than the revenue growth at 30% and 28% respectively.

We would like to highlight that this is Syngene's first earnings announcement as per the new Indian Accounting Standard. We have restated the financials for the previous year under the new accounting standards and accordingly our profit for Q1FY'16 has increased by Rs.3 crores and the full year profit for FY'16 has gone up by Rs.20 crores. This increase in profit is mainly on account of the mark-to-market adjustment on our FOREX contracts.

The rupee depreciation against the USD post Brexit votes is largely favorable for Syngene though most of the move has since reversed. Our exposure to the UK pound is minimal and as such we do not foresee any negative impact on account of appreciation of the rupee against the pound.

As regards the CAPEX, we have till date committed approximately \$60 million against the planned growth CAPEX of \$200 million. All projects are on track and within budget. Overall, we believe that the first quarter set a good platform for the subsequent quarters and we maintain a mid-term guidance of USD250 million in FY'18.

With that, let me leave my address and would be delighted to answer your questions. Thanks.

**Moderator:** Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We have first question from the line of Prakash Agarwal from Axis Capital. Please go ahead.

**Prakash Agarwal:** Sir, question on this 18% growth before other income. If we just want to break this up into constant currency and dollar, I know you mentioned about 5% currency gain, but that is on the overall 23% growth, right, which 5% of sales return that you talked about. So on 18%, what would be the constant currency growth?

**M.B. Chinappa:** Prakash, 18% is the sales growth, I am keeping other income out of this. So if you look at 18% sales growth, in 18% we have had a 5% benefit account currency movement and as I mentioned we also had a 5% negative impact on account of the sales return. Last year this quarter the rupee was about 64 to the dollar, this year it has been about 67.

**Prakash Agarwal:** On the ECB loan on this \$100 million that we had raised last quarter, how much of it has been utilized and what is the staggered manner which is largely going to the Mangalore facility if I am right or how do you plan to use this capital?

**M.B. Chinappa:** \$12 million has been spent towards Mangalore facility. Most of the spend is towards the other two capex programs which are currently underway. That is the Formulations Center which we expect to commission in the second half of this financial year and the Biologics plant which we expect to commission in the first half of next financial year. Mangalore project is awaiting environmental clearance and spend against that will pick up only in the second half of this year post approval.

**Prakash Agarwal:** Secondly, your mid-term guidance of \$250 million, so how should we read into this in terms of Indian conversion, so should we take the current currency exchange rate of 67 approximately?

**M.B. Chinappa:** Yes, it is a dollar guidance, so it will be based on the prevailing rupee rate at that point. Last year we achieved \$173 million of revenues; to achieve \$250 million we need to grow at a CAGR of about 21% over two-years.

**Prakash Agarwal:** We are on track, I mean, you did mention that this adjusting for 5% we are at 18%, so which is marginally lower than your 21% guidance?

**M.B. Chinappa:** Yes, it needs to pick up but based on the strong business momentum we believe we will be able to achieve our mid-term guidance. It is more on our positioning today in the market, we are seeing a good traction in new wins and we believe we can meet our guidance.

**Prakash Agarwal:** On the 50,000 sq.ft. of the capacity that we commissioned last quarter, is that revenue generating?

**M.B. Chinappa:** Yes, but that is all built into our growth projections. Do not read this as over and above our growth projections.

**Prakash Agarwal:** But that has started in full capacity already or it is yet to pick up is what my question is?

**M.B. Chinappa:** It will pick up in a gradual manner.

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

**Nitin Gosar:** I missed the opening remark which was more qualitative in nature with regard to the business performance. Typically, you spell it out like Dedicated Discovery and Manufacture, how they have behaved for the quarter?

**Jonathan Hunt:** The qualitative comment is that I think it is a robust revenue performance for the quarter. We are on track to achieve our mid-term guidance, it is coming in line with our own expectations internally. We do not actually split the revenue and the growth rates by each of the sort of business areas because we operate in three different areas – there is the Dedicated Research Centers, Discovery Services and Manufacturing API Group – all three of those are operating in line with our plan expectations. I did make a comment qualitative which is I think the Discovery Services grew particularly Discovery Biology and this is the macro trend you are seeing across the industry is performing well. That gave momentum throughout last year and then carried that forward into the first quarter of this year. That is something I look forward to seeing continuing and it matches what we see underlying in the global client base, in the client industry, whether it is biotech or big pharma or even into some of the other industry sectors we serve where we are seeing a much more prominent and prevalent use of biotechnology approaches to solving scientific problems. That is not that chemistry has gone away. It is becoming a dual, sort of approach to solving problems and Syngene is in a fortunate position and being well positioned to deliver and provide services in both of those areas.

**Nitin Gosar:** Getting into Biologics and your parent is more into Biosimilar, how do you pitch it to your client – do they get bothered by the parent aim to being into Biosimilars and you are wanting to do work on Biologics?

**Jonathan Hunt:** Actually, that is a very fundamental and quite important question. My high level answer is that you are seeing it is growing in the Biology area across all our service lines and that sort of prove positive for many, many of our clients, they do not see that as an insurmountable issue. What it actually does is it reminds us the importance of something that we call very-very in high regard all the way across our business which is around control of information, separation, accountabilities and all of our clients look for expect and we deliver for them a very much ring-fenced data secure way of working. So we have multiple-multiple layers across the organization from physical access controls to data access controls to training and comfortable ways of looking at it. That means every client's test results are secret and safe for them and specifically restricted only to the teams that need to see it. We do that with every client, whether it is in Small Molecules or whether it is in Biology. So I think we address that, but it is not at all a low tech question, quite an important one and it is something we put a lot of focus on and put an awful lot of investments behind making sure we can deliver on it.

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

**Abdul Puranwala:** Can you please give us some details about the sales return what had happened in this quarter?

**Manoj Nerurkar:** Sales return essentially there was a material that we made for one of our partners, and although that material has passed the test, there was one particular test that they conducted and it did not really meet their requirements, which was not part of the specification. So they have requested us to bring it back, This is something that is kind of one-off. We do not expect this to be obviously a

recurring phenomenon, and we are confident that we will reprocess it and send it back and therefore really do not see any material impact of any of this, it just defers our revenue by a quarter or so into the next quarter, but again as I said there is no material impact of any of these on the way we do things or the outcome of this particular collaboration.

**Jonathan Hunt:** Just to build on that, one comment I would make, from a customer satisfaction, customer service point of view, we are very happy to do the reworking and reprocessing. What we want at the end of the day is not just great science, but a very satisfied customers and therefore from that point of view it is just not a problem for us to do that, it delays the revenue by a quarter or so. So we expect that to show up in the P&L later in the year, but that is exactly the right thing to do.

**Abdul Puranwala:** Regarding the \$60 million CAPEX what you spent in over the years, so was this mainly spent on the Viral Testing facility and the SRC or what was the actual amount being spent on this two facilities?

**Jonathan Hunt:** I know I made the comment which is to reinforce that we are excited around having the Viral Testing facility up and running. We see it is something differentiating. From my understanding we are the first organization in India to have this capability. So that is a good thing. But please do not miss the comment I made around this is a very specialized area, it is a niche business. So I would not want you to think of this as being transformative for a big revenue generator, but it is significant, it is a good capability to have.

**M.B. Chinappa:** The spend on Viral Testing facility is not significant. Most of the money has gone towards the Syngene Research Center and the Formulation Center plus the land acquisition in Mangalore.

**Abdul Puranwala:** Can you please provide the revenue contribution from the three segments in the Q1?

**M.B. Chinappa:** The broad break-up is Dedicated Centers 31%, Discovery Services 26%, Development and Manufacturing Services 35% and other income 7%.

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

**Charulata:** My question is of the 18% core sales growth if you exclude the currency growth how much is volume driven, how much is price driven? The second question is pertaining to employee cost; there has been a 27% increase in employee cost.

**M.B. Chinappa:** It is difficult to split the growth between price and volume, but suffice it to say most of it is mainly volume growth because we have got the price benefit from the currency which is the additional 5%.

**Jonathan Hunt:** But we do not split that out in our reporting. Happy to make a qualitative comment which is we continue to see good volume growth, whether the growth in clients or growth in the depth of relationships with individual clients and across this quarter I think throughout last year we were pretty good and also commanding a degree of price improvement. The majority of our growth is volume driven. Similarly,

your comment or your question around headcount. You are absolutely right, we did see high to mid-20s increase in overall labor cost and that just reflects the rate at which we are growing. If you see revenue growth at 23%, I think the five year CAGR is up in the mid-20s, you are seeing exactly the same thing in terms of recruitment of staff. So in any given year, it is not unusual for us to be onboarding many hundreds of new staff. So you are seeing that growth in headcount and that again strides the overall headcount labor cost part of the P&L, but I think that is a positive trend that is a real indicator of top line growth.

**Moderator:** Thank you. The next question is from the line of Surya Patra from PhillipCapital. Please go ahead.

**Surya Patra:** Can you just give a sense what is the kind of CAPEX that you would be doing throughout this financial year and next though we have a CAPEX plan for over next 2-3-year period of 200 million but over this year and next year what is the kind of outlay that we should see?

**Jonathan Hunt:** I would advise people think about modeling given that we do not actually give a month-by-month or quarter-by-quarter CAPEX plan into the public domain. High level for me is US\$200 million. I think the figure we reported today was that we were 30% of the way through that investments schedule. So you can start calibrating how much is left. It runs till FY'19, so you got the rest of this year, next year and then into the beginning of the one beyond that which gives you some sense of what you need tomorrow and again it is five key areas that we are putting investment here in Bangalore, four of them is the SRC, you got a way of thinking about that which is 200,000 sq.ft., 50,000 which has come online. So that we clearly build that building, we are yet to finally finish three-quarters of it. You got a Biologics manufacturing facility which is going to come online in the first half of FY'18. So you could sense the timing around that. A Formulations center for the second half of FY'17, with the Viral Testing which is being done and that is up and running, so that is covered by the 30% run rate on the 200 million and those are the main ones here in Bangalore. If we switch that to the commercial manufacturing strategy, that is the other 100 million and that is over in Mangalore. Chini (Chinappa), could you give a comment so far the investment behind that?

**M.B. Chinappa:** Only in the purchase of the land, about 10%.

**Jonathan Hunt:** So while it is not a precise answer, I think you got enough moving parts there, you should be able to get a reasonable model of it.

**M.B. Chinappa:** Largely, the first 100 million towards the Bangalore projects at the existing site will be completing in the first half of next financial year and Mangalore spend will come from next financial year then go on till FY'19.

**Surya Patra:** The Research Center that we have set up, so what would be the kind of the scientists' capacity that it can occupy, like how many number of FTEs?

**M.B. Chinappa:** Each center would have a different metric but somewhere between 600 to 800 scientists fully fitted out.

**Surya Patra:** That gradually we should see a kind of hiring end?

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

**Surya Patra:** We have added a couple of new capabilities in terms of this antibody drug conjugates and all that. So, on the new capabilities or the platforms that we are adding towards service offering, if we have done something like that, then can you just highlight on?

**Manoj Nerurkar:** Surya, today we are looking at two as you know the oligonucleotide development and manufacturing and the antibody drug conjugate. These are some of the very cutting edge kind of capabilities that we have added to our services and in that sense it takes a bit of time for our partners to really catch up on these in terms of outsourcing these two to us. What benefit it gives us is that we have the first mover advantage and the discussions with clients are on in terms of how they can make use of this. We do not have a revenue guidance for these capabilities but we expect these to really play an important role in our partner's R&D program as we go forward. Talking about any other new capabilities, we keep on adding things like Viral Testing and oligonucleotides and these kinds of capabilities constantly because R&D is continuously evolving and we need to keep pace with the times that is moving forward. So we will keep on describing our new capabilities as they mature and come online in coming quarters, but this is what we have as we speak.

**Moderator:** Thank you. The next question is from the line of Surait Pal from Prabhudas Lilladher. Please go ahead.

**Surajit Pal:** Chinappa, could you please tell me the three broader breakup of your revenue this quarter vis-à-vis last quarter?

**M.B. Chinappa:** Broadly the Dedicated Center is 31%, Discovery Services is 26%, Development and Manufacturing Services is 35% and other income 7%.

**Surajit Pal:** How it was in Q1FY'15?

**M.B. Chinappa:** I can give you what it was for a full year FY'16 as we reported which is 32% Dedicated, 23% Discovery Services, and 43% Development and Manufacturing and 2% is other income.

**Moderator:** Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

**Nimish Mehta:** I could not understand the guidance when you said US\$250 million for the mid-term. So if you can just clarify what do you mean by this mid-term that would be helpful?

**Jonathan Hunt:** US\$250 million revenue for fiscal FY'18.

**Nimish Mehta:** As in this quarter or let us say last fiscal FY' 16 if you can also give us some color of the total revenue that we are generating, what quantity or proportion we will be generating out of FTE-based billing versus the other way of billing?

**M.B. Chinappa:** Most of the Dedicated Center and most of the Discovery Services is in FTE and most of the Development and Manufacturing Services is in (FFS) Fee-for-Service revenues.

**Jonathan Hunt:** Two-thirds is a simple way of looking at it.

**Nimish Mehta:** When we are building new capacities, what is that we look forward to – do we look forward to more orders from the same clients or we are actually looking for new clients addition, generally some sense that will be helpful?

**Jonathan Hunt:** I think it is both. Our historical experience tells us there is a very clear pathways that the clients sort of follow and often it can be multi-years to see them go through these various stages, often they will start out with a fairly simple piece of work, it may well be fee-for-service and it may only be in one particular service area, and as they gain both positive experience of working with Syngene and confidence in working with us, they see the capability of doing much more than that tends to build and the best combination of that, the most obvious ones, the relationships we have had with the three clients where we have fully Dedicated Centers. So they built over quite a long period of time, bit-by-bit they expanded both the depths of what they do within this, breadth of what they do, and in the end it makes sense to put that into a dedicated facility. So I would expect to see a continuation of that trend. So wins from new clients but also the expansion and maturation of the relationship with existing ones.

**Nimish Mehta:** How much revenue are we generating from the top-3 clients that you just mentioned as of now, ballpark like more than 50%, less than 50%, that will be helpful?

**M.B. Chinappa:** It would be about 40% from the top-3 clients.

**Jonathan Hunt:** It is stable if anything I would expect that would be coming down slightly, we see the rest of the business grows strongly, you can tell the fact I did not know the answer, it is not the number that either concerns me or spend a lot of time looking at.

**Moderator:** Thank you. The next question is from the line of Pritesh Vora from Incedo. Please go ahead.

**Pritesh Vora:** Why there is a fluctuation in your quarterly revenue?

**Jonathan Hunt:** In general, the question is a good one, the track record is of multiple quarters in a row where our revenues have grown, within that I think what you are specifically meaning is why there are variations in the degree by which we grow, I do want to say that it is consistent growth that you are seeing. I think some of that just reflects the nature of our clients, business and what they ask us to do. Sometimes we complete number of projects on a quick basis and then we move on to the next piece in the next quarter. So there is an element of seasonality to it. Not seasonality in the sense it is driven by weather patterns, but more it is driven by planning cycles within our clients.

**Manoj Nerurkar:** I think just by nature R&D is unpredictable. Things work, things do not work, things get pushed out, they come ahead. So what we have said in the past really holds true, therefore our revenue and the growth is lot more relevant on a yearly basis and the quarter-on-quarter basis.

**Pritesh Vora:** I just wanted to understand, is your fourth quarter revenue simply higher than the other quarters, is that the general trend we see over the last several years?

**Jonathan Hunt:** Whether we would be taking this to be a prediction for the future, the question is if you look at historically that tends to be a fair amount of activity that is back end weighted in the year and the fourth quarter tends to not only see the work done but consequently a little bit more growth coming through. I do not think I am going to root cause the explanation as to what it is, what drives that but I know if we go back and look through multiple years, that is exactly the pattern we see.

**Pritesh Vora:** My second question is how we see your Mangalore plant return-on-capital employed. What framework we have to use to see how it will pan out?

**M.B. Chinappa:** I caution you to remember the time goals we are looking at for Mangalore. It is a Greenfield site at the moment, we are going through the very early stages of start up with the EC approvals and then we will start specifying, designing and building that plans. That gets us on to our current plants that are fully functional, commercial facility by FY'19 and then beyond that we have to start building, client work and revenue generating activities. So it is long-term, it is the strategic expansion for us and as long as you think that is true, you model it and it is quite important.

**M.B. Chinappa:** It is too early to comment on the return on investment of the Mangalore facility and it is subject to capacity utilization. As we see the capacity fill up, then we expect the returns averaging current return on investments. But that all subject to capacity utilization and will show up in the latter years.

**Pritesh Vora:** What sort of asset turnover ratio we can see in this kind of facility, any range?

**M.B. Chinappa:** Again, difficult to model because each product is different. It is not a single product, but multiple products. If you look at other CMOs, they are largely operating at above 1:1 asset turnover.

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

**Charulata:** My question is relating to all the niche facilities that are relating to the antibodies. You think will it take longer time to get returns on these investments or would you expect returns within say three to five years' time?

**Manoj Nerurkar:** In general, just by niche type of services, these are smaller in quantum, but they are highly specialized and we believe that at least as far as the Viral Testing is concerned, as Jonathan said earlier, we believe that we are the first one and the only one in India to set something like this up. Now, with the emergence of Biologics, as a therapeutic intervention, if you will, these are the services especially the Viral Testing is something that is required by each and every company that gets into the biologics development and therefore we believe that we will be quite successful in making this work for us. When it comes to antibody drug conjugate, as you know, these are used for oncology anti-cancer indication which most of the large companies and many-many small companies are pursuing quite aggressively and therefore we believe that even that service is something which will pick up momentum as we go along. Now, how long will it take us to really fill this up is something cannot comment right now since it is forward-looking kind of a statement, but we believe that there is a momentum towards both these and therefore we will be successful.

**Charulata:** What is the number of scientists currently?

**M.B. Chinappa:** It is about 2,600-odd.

**Charulata:** Can you also give the number of clients?

**Jonathan Hunt:** For the full year which is 256 if I remember correctly. Our general approach to that is to update that on an annual basis, it is more meaningful as, on any given quarter, it could go up from that and I think that would send the wrong message.

**Moderator:** Thank you. The next question is from the line of Chetan Wadia from JHP Securities. Please go ahead.

**Chetan Wadia:** I have two questions both from the CAPEX. You spent 30% of the 200 million that we have planned. So in FY'17 or '18 how much you are likely to spend of the remaining? Second question is will there be any capitalization in FY'17 or all of will go to FY'18?

**Jonathan Hunt:** Your second question is that is very similar to the question we had earlier, So do not be surprised if you get almost the same answer.

**M.B. Chinappa:** In terms of cash outgo, it is about \$100 million towards largely three investments – Syngene Research Center, the Formulations Center and the Biologics Plant plus some additional CAPEX including the Viral Testing Center. Most of this \$100 million will be spent by H1 of next financial year. \$100 million is earmarked for the commercial manufacturing facility, for that we expect most of the spend to really happen over the next two financial years, that is FY'18 and FY'19.

**Chetan Wadia:** So for the first \$100 million the capitalization will happen only in FY'18?

**M.B. Chinappa:** The capitalization is staggered, the first phase of the Research Center was capitalized in this quarter, April to June and the other floors will be commissioned over the next 2 years in a staggered manner. Viral Testing Center has gone live from 1<sup>st</sup> July. We expect the

Formulations Center to be commissioned in the second half of this financial year, Biologics facility, should be commissioned in the first half of next financial year. The capitalization will happen in a staggered manner.

**Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

**Dheeresh Pathak:** The \$100 million into the four different buckets, can you give a breakup like SRC, Biologics, Formulations and Viral is how much?

**M.B. Chinappa:** We have not provided a split of that because there is a lot of common investments that support all these four programs.

**Dheeresh Pathak:** Can you call out the biggest category in the \$100 million spend where is it going – is it going mainly in SRC?

**M.B. Chinappa:** I would put these three in a similar range with the Research Center being slightly higher.

**Jonathan Hunt:** In terms of the numbers, just to give you a sense of it, SRC is probably the biggest in that, the smallest is Viral Testing and then you got two in the middle. Rule of some way of splitting that up and modeling it.

**Dheeresh Pathak:** Mangalore facility when it commercializes, the revenues would categorize under Development and Manufacturing, right, but in the Mangalore CAPEX revenues would go into Dedicated as well as Discovery or is it not going anything into Dedicated?

**M.B. Chinappa:** It would come in that category of Development and Manufacturing. We will have to take a call on providing the split based on how the business is structured.

**Dheeresh Pathak:** \$200 million CAPEX that you are doing, nothing is being done for dedicated part of the revenue stream?

**M.B. Chinappa:** The Research Center investment would support both the Discovery and Dedicated Center.

**Moderator:** Thank you. The next question is from the line of Harit Ahmed from Spark Capital. Please go ahead.

**Harit Ahmed:** In the Development and Manufacturing Services segment, can you talk a bit about the number of molecules that are currently being developed for your customers especially if there are any in the latter stages of development?

**Manoj Nerurkar:** The number of molecules are quite large. If you talk of late stage, that is high single digit molecules which are in late Phase-2b and Phase-3, but there is quite a significant pipeline behind that in Phase-2a, in Phase-1 so on and so forth. So we do not give the number of molecules as such because again it is a moving target for us, we keep on adding molecules, some of them do not make it because that is how the industry trends are and some of them make it to the next level. So we do not really give out number of molecules as such except for

the late stage where we say high single digit is something that we are closely tracking, because those are the ones which have potential to become commercial molecules.

**Harit Ahmed:** Do you have visibility on moving from Phase-3 to commercialization at this point?

**Manoj Nerurkar:** There are molecules in Phase-3 today, right, but as you very well know there are molecules fail in Phase-3 as well. So visibility you just cannot say because it all depends on the success of Phase-3 which no one including the innovator themselves know as of today. So giving that kind of visibility is impossible for anybody including the innovators themselves.

**Harit Ahmed:** If there are candidates that move from Phase-3 to commercialization, do you have the capacities now to deliver those quantities or will it have to wait till you commercialize the Mangalore facility?

**Manoj Nerurkar:** The plan is if any of these molecules move into commercial, then the initial launch will happen from our Mangalore facility. As you very well know, for any molecule especially for innovator molecules, it takes little bit of time, there is a lag phase before the volume really take off. So the plan would be to support them from Mangalore for next whatever couple of years until Mangalore comes online and then as the volumes pick up and larger quantities are required we will transition that to Mangalore. But yes, today, we do have capacity in Mangalore to support those kinds of campaigns for the initial launch.

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

**Paresh Dave:** Sir, if we exclude the 5% gain on currency and the 5% sales return, the lower revenue growth, has there been any kind of pricing pressure especially in the Chemistry Discovery vertical which we have seen in the quarter or in past two-three quarters?

**M.B. Chinappa:** No, we are not seeing any pricing pressure pushing billing rates down.

**Paresh Dave:** Going forward out of the three segments, any specific segment which you are focusing on for higher growth?

**Jonathan Hunt:** I think we got a flavor of that in my introductory comment, we are seeing all three of the segments business areas performing in line with our plan; the two that I call they are showing vibrant growth and they are carrying that momentum that they have built from last year into this year was the Discovery Services section and within that I think Discovery Biology is doing particularly well. But that is we expect it to, it is in line with our expectations, but it is showing very good growth year-over-year and then similarly we saw the same thing in the Manufacturing Group as well.

**Paresh Dave:** On the Mangalore spend, earlier, commentary that the spend will pick up from second half of this year, post the environmental clearance which means we will have one more quarter of loaded other income, is that right way to think about it?

**M.B. Chinappa:** Yes, the other income will steadily reduce over the next few quarters as we invest the money in CAPEX.

**Paresh Dave:** Tax rate has increase to 18%. Are we looking at going to 20% or continue with the earlier guidance given in last quarter?

**M.B. Chinappa:** The tax rate for the core business remains at previous year's level; it is in the 14-15% range and the higher tax rate for this quarter is on account of the higher other income.

**Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand over the floor to the management for their closing comments. Over to you, sir.

**Jonathan Hunt:** I would rephrase the comments I made at the beginning of the call, very happy with the first quarter, good start to the year, we saw robust revenue guidance growth as we drop down to the P&L, very happy with the cost control we saw throughout the organization you can see that represented there in the EBITDA and profitability growth rates and of course boosted to some extent by both other income and FOREX gain. But I think the high level summary is that a good start to the year and we look forward to continuing that to the performance through the rest of the year. Thank you for your time and thank you for joining.

**Moderator:** Thank you very much, sir. Ladies and Gentlemen, with this we conclude today's conference call. Thank you for joining