Syngene International's Q1 FY2018 Conference Call

July 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

Moderator: Ladies and gentlemen, good day, and welcome to the Syngene International's Q1 FY 2018 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Chanderlekha Nayar from Syngene International. Thank you and over to you, ma'am.

Chanderlekha Nayar: Thank you, Janice and good morning to everyone. This is Chanderlekha Nayar from Syngene Investor Relations Team and I welcome you to Syngene International Earnings Call for the First Quarter Fiscal Year 2018. We have with us Mr. Jonathan Hunt – Syngene's Chief Executive Officer and the Senior Management Team to discuss 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 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. Over to you Sir.

Jonathan Hunt: Thanks, Chanderlekha, and good morning to everybody. Thanks for joining us on today's first quarter results call. As you know, last quarter's revenue performance was somewhat muted at (-6%) YoY and that was clearly due to the impact that the Q3 fire incident had on our operations. So while we have not yet fully recovered from that, we are happy to report clear positive momentum in this quarter.

So let me start with a "High Level Update on our Quarterly Financials" and then I move on to the "Operational Updates" and I will leave our "CFO Mr. Chinappa to cover the Financials" in more depth in his address.

So revenue for the quarter was Rs.308 crores, that is registering a (+6%) growth over the corresponding quarter last year. I think about that sequentially we have seen a swing in the quarterly revenue growth rate from (-6%) last quarter to (+6%) during the course of this quarter. I think that is a solid performance and it is a healthy sign of recovery for the business. During the quarter, we also managed our costs well and this helps us maintain what I think a good EBITDA and PAT margins. EBITDA was

Rs.113 crores, PAT was Rs.62 crores and the registered growth of 8% and 3% respectively during the quarter.

As I mentioned in my commentary last quarter, the fire impacted facility accounted for about 10% of our total infrastructure and while we are making good progress on the restoration work, we continue to expect this facility to be out of action throughout this year to rebuild and refitted.

Now, also during the quarter, we were delighted to sign an expansion to the strategic collaboration we have with Amgen to further expand both the scale and the scope of the work we do with Amgen. I think this reflects the good progress we have made together over recent years and certainly the high level of confidence and trust that they place in us to continue to deliver.

As you recall, SARC the dedicated R&D center that was inaugurated in September 2016, currently houses around 100 Syngene's scientists who work closely with Amgen's global scientific teams on a range of discovery and development projects. So this expansion will see that headcount grow to around 185 scientists. It should also double the infrastructure from the current 25,000 sq.ft. Up to 50,000 sq.ft. And also see the team undertake what I think it is a wider range of R&D activities for Amgen.

The other news for the quarter is that we also signed a Multi-Year Manufacturing Agreement with a Japanese Specialty company to manufacture Novel Chemical Entity for commercial launch in the Japanese market. I am sure as you all know the Japanese market is amongst the most stringent of regulated markets globally and I think this contract is a good validation of our ability to meet the very highest quality standards in manufacturing. We have been involved in this project since proof-of-concept stage and we are happy to see its progression through the commercialization. I think really is a good example of our ability to support clients both with Integrated Drug Discovery, with Development and with Manufacturing Services to genuinely be a one-stop service provider.

As you have seen from the Press release, we've made two important appointments during the quarter; one to the Board and one to the Senior Leadership Team. Both of these appointments are good examples of our efforts to bring in both a depth of experience and build a strong global perspective into both the governance and running of our operations.

We are delighted to have Ms. Vinita Bali joining the Board as a Non-Executive Independent Director. I am sure Vinita is well known to many of you, who is the former M.D. and CEO of Britannia. She brings a wealth of rich experience in global markets in general management. She also has good knowledge of healthcare sector and has built considerable global experience. I look forward to working with her. .

The other senior level appointment during the quarter was that of Mr. Sebi Chacko who joins as our Chief People Officer. During his nearly two-decade corporate career, Sebi has held positions of increasing responsibilities at Coats Viyella, Citibank, Thomson Reuters and then most recently at Strides Shasun. In his new role, Sebi will spearhead Syngene's people-driven approach to organizational development. I think really he is going to help continue to make sure we can attract and develop what I think of a very best scientist in India.

So before handing over to Chini, let me give you my summary of the quarter:

We've seen good recovery in our revenue growth rate. We've got more to do in the current quarter but I'm happy that we are heading in the right direction.

So before I hand over to Chini, let me sort of summarize the quarter for you: I think we have seen good recovery in our revenue growth rate, more to do in this quarter but I am happy that we are heading in the right direction. Our profit and margin performance continues to be very solid and shows good cost control. I think the two deals I mentioned are excellent demonstrations of the progress we are making on our strategic agenda to be seen as a differentiating service provider of Discovery Services through the dedicated research center model and our plans also to move into commercial scale manufacturing.

So with that, let me call upon Mr. Chinappa to give you more details on our financial performance and of course, we will be glad to take at the end of any questions you may have.

M.B. Chinappa: Thanks, Jonathan and good morning, everyone. Firstly, I would like to brief you all on the reported performance for the quarter, looking at revenues, EBITDA and profit after tax and then further explain the impact of interest income and currency movement on an underlying business performance. During my commentary, I would also brief you on the progress of the ongoing investment program, the insurance claim related to the S2 facility and a brief on the impact of GST.

For the first quarter FY 2018 we have seen a revenue growth of 6% at Rs. 308 crores compared to Rs. 290 crores in the same quarter last year. The EBITDA at Rs.113 crores, is up by 8% as compared to Q1 FY17 with margins at 37%, which is up from 36% in Q1 FY17. The profit after tax at Rs.62 crores, is up by 3% compared to Rs.60 crores same quarter last year. Our PAT margins for Q1 FY18 came in at 20%.

These numbers include the benefit of interest income of Rs.17 crores in this quarter. Associated with the interest income was finance charges of Rs.5 crores and income tax of Rs.5 crores. If we exclude the effect of interest income and associated finance charges and taxes, the underlying revenue for the quarter was Rs.291 crores compared to Rs.274 crores last year and adjusted EBITDA and PAT margins for Q1 FY'18 was at 33% and 19% respectively in line with overall historical average.

During the quarter, we had headwinds on account of currency; the average realization was at Rs.64.5/USD compared to an average of Rs.67/USD in the same quarter of previous year. In constant currency terms, our revenue growth is 4% higher at 10%. The impact of currency movement has been negated by hedging gains of about Rs.16 crores.

Moving on to Segment Performance: Our Dedicated Center which represents a third of our business has performed well in Q1 FY'18. We are very excited about the expansion of the collaboration with Amgen and look forward to even stronger relationship with them.

With regard to the cost elements, our material and power costs as a percentage of revenues have declined from 27% in Q1 FY'17 to 26% this quarter owing to sales mix. Employee cost as a percentage of revenues was up from 25% in Q1 FY'17 to 28% this quarter, reflecting additional headcount and salary increment. Other expenses is down by 6% compared to same quarter previous year, reflecting the impact of hedging gain. Effective tax rate is steady at 18% similar to the last quarter.

The CAPEX and Balance Sheet Items: Our ongoing CAPEX program of $200 million is now entering its third year of phase investment. We have overall invested $80 million till date including $68 million on expansion of facilities in Bangalore and another $12 million towards the commercial manufacturing API facility in Mangalore. As indicated in the previous quarter commentary, we expect our Biologics manufacturing facility at Bangalore to be operational during the next quarter. We have already initiated the start-up activities in Mangalore and continue to be committed to go live in FY'20. The net cash position as at June 2017 is Rs.259 crores positive cash.

Regarding the Insurance Claim, we are in the process of completing the assessment of the total assets damaged on account of the fire and would file the full insurance claim in Q2 FY'18. We expect to realize insurance proceeds along with refurbishment of the facility which is scheduled for Q1 FY'19.

Additionally, the introduction of GST will have minimal impact on Syngene as most of our operations are concentrated in a Special Economic Zone (SEZ), with low incidence of tax.

Overall we are slowly coming out of the impact of the fire incident and H2 growth will be critical to help us rebound towards the initially indicated 20% revenue growth levels

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 Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: Just wanted to understand on the currency part. There was mentioning of the hedging gains of Rs.16 crores. That would be accounting in which line item?

M.B. Chinappa: It is credited to other expenses.

Nitin Gosar: These are normal hedging activities that we do throughout the year?

M.B. Chinappa: That is right, Nitin, hedging policy looks to hedge 100% of net year-one revenues and about 70% of net year-two revenues. We have been consistent with the hedging policy and overall FY'18 revenues are fully hedged today at the levels of just above 67.

Nitin Gosar: The second question was pertaining to the top line growth of 6%. Keeping in mind that the infra overall capacity that got disturbed because of the fire incident was about 10%, would it be fair to assume that the incremental growth that we are driving out would be from non-service part of the business, more of a manufacturing kind of activity?

Jonathan Hunt: No, I think it is across the business. Both discovery services and dedicated centers are continuing to grow. Also, as you saw that with this morning's announcement of an expansion of Amgen, we believe things are kicking along nicely. I think the areas that are most impacted by the fire is in the Discovery Services, but it is more towards the chemistry and the other areas including biology are continuing to do well. Most of the fire impacted infrastructure was chemistry-related and as you know, we relocated every one of those scientists in-housed in the fire facility to other facilities within the campus. They are working quite hard to keep those impacted business running operationally and delivering to clients. So there is a little bit of a headwind drag on anything that is chemistry-related but the other services that we have got, whether it would be formulation, biologics, the biology area, moving along quite nicely.

Nitin Gosar: The staff cost which is 16%, does it account the additional staff that we would have hired for Amgen's contract or that is yet to come into the numbers?

Jonathan Hunt: No, they are yet to come because the expansion happened in the second half of the year. The staff cost driver you seeing in Q1 FY18 includes the basic pay increases across the organization plus we are growing. So continued increase in headcount and in some of the areas we are enriching the quality of the hires that we brought in with some good people having international experience on the science side and that drives a little bit of your labor cost going up.

Nitin Gosar: Our guidance of $250 million by FY'19, that stands good still?

Jonathan Hunt: Yes, we are progressing through the years. So let us see where we get to by then end of FY18. I think as you saw in the first quarter reversing from 6% decline in the fourth quarter to getting back into growth in the first quarter is the first step towards recovery. We got to keep this momentum going and we will update you more on this as we go through the year.

Moderator: Thank you. The next question is from the line of Ashish Thakkar from Motilal Oswal Securities. Please go ahead.

Ashish Thakkar: Sir, considering the rupee/dollar movement that has happened over the past several quarters, is there any case for us to ask a price hike from the client?

Jonathan Hunt: Chini, a question for you on our approach in general to hedging. But I think it is probably worth making a comment about the longevity of some of the contracts that we have got. That is very-very long-term and therefore we have very good business. On the long term contracts the pricing we get comes with locking in period and that is why we have such a conservative approach on hedging.

M.B. Chinappa: As Jonathan just said that all our long-term contracts we kind of look to hedge them completely and therefore protect us against the currency movement once we have committed on the price at which we deliver our services. The shorter-term contracts and the contracts that come off for an annual renewal we typically look to reprice those contracts for the impact of the currency movement, inflation, etc., and revise the pricing during the contract renewal phase accordingly.

Ashish Thakkar: But overall, there appears to be no hiccup from the client side. Have we tried asking for price hikes?

M.B. Chinappa: That is part of the annual exercise. Normally most contracts come up for renewal in the Jan timeframe and going by past history we have largely been able to pass on impact the inflation and currency movement to our clients.

Ashish Thakkar: Next question would be on the NCE deals with the Japanese company. So would be helpful if you could spell out with therapeutic area is it and would we also be engaging in the manufacturing part and if yes, would it be from the Mangalore facility?

Jonathan Hunt: I agree with you. Would be helpful if we can give you that level of detail but unfortunately we cannot. The relationship we have with the client is keeping things like which NCE, which indication seem to be commercially sensitive for both of us and them. But I think on the manufacturing side, we can make a couple of comments. Manoj, I wonder if you wanted to say something.

Dr. Manoj Nerurkar: Although we cannot talk about the specific therapeutic indication, it is in the gastro intestinal area. That is something we have a clearance from the client to talk about. Yes, we will be manufacturing it. Our current Bangalore facility is where we will manufacture this to begin with. As you know, this is our commercial launch. So it is an initial launch. As the demand goes up where they would require larger quantities, then we will also evaluate Mangalore by the time it comes online to see if this product fits more in Mangalore facility than here. But the current plan is to manufacture this from our current Bangalore facility.

Ashish Thakkar: If I may ask in which state the product is or we have to start from the beginning?

Dr. Manoj Nerurkar: No, we have been working with client over several years to develop this product and now it has reached a stage of commercialization. So we have finished the validation work in terms of manufacturing and as they file their dossiers and get the approval, then it will go into commercialization and then we will start supplying this material for their commercial supplies.

Ashish Thakkar: What are the expected timeline of commercialization?

Dr. Manoj Nerurkar: That has not been discussed yet completely.

Ashish Thakkar: Last question on Amgen. We had started our engagement with these guys a couple of quarters back. So with the expansion in the dedicated infrastructure and addition of new scientists, are the agreement terms remains same as what signed earlier or there has been some renegotiation on this front?

Jonathan Hunt: Actually, the relationship with Amgen goes a little bit beyond that. We have been working with them for a number of years initially at sort of individual project level, more fee-for-service and project-by-project basis. The decision then was in September 2016 to bring all of that work into one place into a dedicated center, that is the SARC building, and now we are looking to expand that. So it is doubling of that infrastructure from 25,000 sq.ft to 50,000 sq.ft., and then expansion from 100 to about 185 scientists. I cannot really give you a comment on the economics of it and as per reference point, given that we never disclose the economic terms in the first place, you will understand why I am hesitant to comment on whether or not they are the same or different terms. But it is a relationship where we are very happy with the overall collaboration and I think it is a real credit to the work that the organization is doing for Amgen and they are a fantastic client to have.

Ashish Thakkar: With the Japanese contract, has the client filed for the NCE, this is what I heard it right?

M.B. Chinappa: Yes, that is correct.

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

Charulata Gaidhani: My question pertains to the Amgen contract. You said you will be adding the headcount sometime in the second half. So when will revenue start to accrue?

Jonathan Hunt: During the course of the second half, but I think it will be more towards the end of the year.

Charulata Gaidhani: Will this lead to any additional CAPEX also?

M.B. Chinappa: Yes, typically setting up a new lab would have incremental CAPEX and that is baked into the $200 million CAPEX guidance.

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

Vipul Shah: My question is what is the dollar revenue growth in this quarter as compared to same period last year?

M.B. Chinappa: In dollar terms and constant currency it is 10%.

Vipul Shah: What is the annual wage inflation?

M.B. Chinappa: Nearly 10%.

Vipul Shah: But I do not think we have been able to pass on the entire 10% as you mentioned that generally we are able to pass it on the wage inflation to clients?

M. B. Chinappa: No, our pricing generally takes into account inflation and currency movement.

Vipul Shah: So whatever renewal comes up, at that time this will take care of it, that is what you are trying to say?

M.B. Chinappa: This has been factored into our pricing always. I think this is not above what we are expected or anything. So there is nothing in the salary increments is beyond what was a part of our initial projection.

Jonathan Hunt: The only other comment I would make, if you look at the P&L over any number of quarters what you consistently see, you have seen high growth, you have seen a decrease in the growth rate of revenue we know because of impact from the fire. This quarter you are starting to see us to come back ahead of that and that is a first stage of recovery. But throughout all of that, fairly consistent margin performance I think both at the EBITDA and the PAT level, because of the differentiation in the services we provide, we consistently enjoy some of the better operating margins within the sector and within our pay group. So a good margin performance, some pretty good cost control, real focus for management is to continue that positive trend that we saw in the first quarter around reaccelerating the revenue growth rate.

Vipul Shah: When is this damaged facility coming online according to your estimates?

Jonathan Hunt: Should take about a year, probably beginning of the first quarter the next fiscal looks about right.

Vipul Shah: So next fiscal should we expect mid-teen type of growth which we generally used to have before this incident?

Jonathan Hunt: I am delighted you invited me to give you a long-term forecast, but I cannot answer to that at this stage.

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

Prakash Agarwal: Just trying to understand the ramp up in the Mangalore facility. What is the status today …construction started and the corresponding use of cash during the year please?

Jonathan Hunt: I will let Chini talk a little bit about the financial side of that. If you think about this operationally, we told you over the last couple of quarters that we had to get whole loads of the required permits, the land is there, we are ready for ground-breaking work and surprisingly you know the Indian weather as well as I do. There is always an element of rain to stop. It is a monsoon season. So I do not expect it to be too much on the ground digging at the moment, but the team is ready to go and that is all factored into the project plan. Chini, I wonder if you had a comment around just the general movement in time scales.

M.B. Chinappa: As Jonathan said, we have awarded the civil tender and work should start post the monsoon break. Overall CAPEX spend for this year could be in the range of about 50 million which includes construction on civil work at Mangalore, the completion of the biologics facility, as I mentioned earlier, the set-up of the Amgen lab and some of the other plant expansion.

Prakash Agarwal: So 50 million for the entire company as a whole?

M.B. Chinappa: Company as a whole in FY'18.

Prakash Agarwal: I was just trying to understand the balance sheet that you have given on QoQ front, if you see the cash movement, down by Rs.200 crores. So just I was trying to understand whether a large sum have gone to Mangalore or it is Syngene's facility ex of Mangalore?

M.B. Chinappa: Read the cash and investments together. Back what you call cash and cash equivalents and the investments; bunch them up together because all these investments are for the liquid assets held in short-term mutual funds.

Prakash Agarwal: I am trying to understand this staff cost. So you mentioned wage inflation and increase in headcount given the senior hires and last time you alluded in terms of quality as well as business promotions. Now is the hiring largely done, the senior hire especially? Is there a one-off there just trying to understand that?

Jonathan Hunt: Prakash, I do not think really the driver of the wage really is senior hires. I think we are supplementing the senior leadership and scientific leadership with one or two hires. By the way I hope that does not stop because it is a very good indicator of growth and expansion in the organization. But similarly, if you look at how our range of services is evolving, I think we are starting to take a leadership position particularly in an area like biology and getting high quality biology talent in India is absolutely doable. But it is not as easy as it is in some areas. That is why I think the team that were putting together is a strong one, it is a differentiated one. I think as you can see from some of the client engagements we have got, our clients think that as well, they have good businesses, and we hire some very talented people in that area. So far from being a rising cost that needs to be monitored. It is actually a very good health indicator for us.

Prakash Agarwal: I was coming from a point that obviously we are having a kind of blip due to fire event. Our revenue growth from a full year basis would be more than able to cover the increase in staff cost on an annualized basis is what I am trying to understand?

Jonathan Hunt: Again, I think that is a modeling question for you. We will do our best in terms of explaining the moving parts and the operational strategy that we are playing, but after that you got to come to your own conclusion. But I think the fact you termed the fire as a blip, tells me that you understand it as well. It is a one-time event; it does not be a recurring one and therefore strategically does not change either the long-term, mid-term outlook for the company all the strategy we are pursuing.

Prakash Agarwal: Secondly, on the other expenses, if we add back the hedging gains, there is a significant increase in other expenses. So if you could explain the increase and would that increase be throughout the year or is one-off there as well?

M.B. Chinappa: It would be throughout the year, Prakash. We had indicted last quarter that we expect to see a step up in the overall spend as we look to strengthen the organization both from BD perspective and the safety and compliance aspects. During the quarter, we have seen increase and also part of this cost increase is on account of the increased ramp up in facility, so there is an increase in repairs and maintenance charges, there is an increase in business development cost including travel and there is also an impact of the increase in insurance premium consequent to the fire incident and the insurance claim that we are looking to launch.

Moderator: Thank you. The next question is from the line of Jinal Fofalia from Alfaccurate Advisors. Please go ahead.

Jinal Fofalia: Sir, first question is how big is this opportunity of Japan that we have signed up… could you quantify that?

Jonathan Hunt: We are not in a position where we would be comfortable quantifying it and I think it is something the client would feel was commercially sensitive. To give you a sense of it, I think part of the reason for putting it in the press release is it is just a good strategic indicator for you guys that we are making progress on our commercial strategy. It is not the whole deal in one go, it is a good indicator of progress rather than transformational but of course it is a relationship we are very happy to have.

Jinal Fofalia: My second question is how big is this insurance claim and when are we supposed to realize this?

M.B. Chinappa: The total value of the assets housed in a building that was damaged on account of the fire incident is just shy of Rs.300 crores. Of which, our expectation is that the total assets damaged in the fire is closer to Rs.200 crores and we would likely to file the full claim in Q2 FY18 and would realize payments during the year and the full reimbursement at the end of this fiscal or beginning of next fiscal year.

Jinal Fofalia: So full reimbursement of Rs.200 crores by end of this fiscal or beginning of next fiscal, right?

M.B. Chinappa: That is right. That would throw up some exceptional gains because we are covered for replacement cost and the damage will be written off at the depreciated value.

Jinal Fofalia: Sir, you guided for 20% revenue growth. Did I hear it properly… is that correct number**?**

Jonathan Hunt: No, I think the comment that we gave you at the beginning of the year was that, clearly as we exited last year we were growing at a much lower rate than and our expectation during the course of this fiscal year was that we would gain momentum and you can see that in the numbers. So we exited 4Q last year with a (-6%) growth rate, the first quarter this year is (+6%) and then we would move back towards the previous sort of growth rates that we use to enjoy and as you said in your question that would be around 20%. I think we also made a commitment that we would update you on how we were doing during the course of the year and that is what we have done today. So from (-6%) to (+6%), we look forward to keep that momentum building into the second quarter.

Moderator: Thank you. The next question is from the line of Abhishek Sharma from India Infoline. Please go ahead.

Abhishek Sharma: Sir, my question was more around the business mix. If you were to split your business in chemistry largely in manufacturing and others which would essentially include biology, then what would be the split like currently?

M.B. Chinappa: We do not really disclose our business split between biology, chemistry and manufacturing because a lot of this work is kind of integrated and spread across the areas. The segmental break-up we only disclose it on a full year basis but roughly speaking our dedicated centers, this represents about a third of our total business. The Discovery Chemistry and the Discovery Biology services that we provide outside of the dedicated centers, that is about a quarter of our business. All the development services that we provide be it manufacturing services, formulations development, biologics development, clinical development, stability services, all of these put together is about 40% of our total revenue.

Abhishek Sharma: Just some more color on biology. What kind of traction have you seen in that business, what are the areas that you are focusing within Biology and how do you anticipate that business will scale in and in what direction?

Dr. Manoj Nerurkar: Biology is quite a complex area in terms of discovering new drugs. That is where the impact of the chemicals that you make which is just a chemical at that point, how do you convert that chemical into a drug before it goes into human is something that scientists try to understand. While doing that there are multiple areas that come into picture, for example, you need to do some of the work just in cell to understand if the drug is active. If you see positive outcome, then you go into animals and do some animal studies with various disease model to understand the particular disease that you are targeting on and see if your drug working in that disease. Through this iterative process, you essentially try to find out more and more about whether the chemicals that you have discovered has any impact that is it effective, is it efficacious, also is it safe. The right balance of these two really gives you a potential drug that goes into clinical trials in human. So the reason I gave this background is because these are the areas that we have focused on over last 10-plus years and what we have really done is strengthened our knowledge in various therapeutic areas to really make a difference not only in terms of conducting experiments, but generating knowledge for our clients. So the areas that have really worked are as I said what we call as “Assay Biology” where we conduct these cell-based studies, animal modeling and those kinds of studies. Then just another big area that we are focusing now also depending on where industry is going is the discovery of new large molecules. Bio therapeutics, the monoclonal antibodies, the fusion protein. So these are the areas which are gaining a lot of momentum and we are trying to capitalize on that in terms of offering these services to our partners.

Abhishek Sharma: In terms of client base, does your biology clientele differ significantly from the clientele that you have for chemistry? Is it the same set of people, are you targeting a different set?

Dr. Manoj Nerurkar: It is both. In fact, there are a lot of projects what we call as integrated projects where client comes to us and say there is a particular disease area in which we want you to work in. So make those chemicals for us and then test them into animal or in cell. When that happens, that is the integrated discovery where same client would do chemistry as well as biology whereas there are some other clients who come at early stage and say before we make any candidate or chemicals, let us first understand the disease. In that case, these are predominantly biology-based clients. So it is a mix of both.

Abhishek Sharma: So you are basically doing biology services for all your large clients like BMS and Amgen as well?

Jonathan Hunt: Yes, we are doing for them as well as for many others.

Moderator: Thank you. The next question is from the line of Mohnish Dave from Temasek Holdings. Please go ahead.

Mohnish Dave: I had two questions; one question is on the fire. If we compare Q4 FY'17 numbers with the Q1 FY'18 numbers, we see that the revenue is flat while the profit has declined. Just wanted to understand how that risen to the recovery from the fire disruption especially given what we would assume that Q4 would have been impacted by some time loss because of transitioning to the BCP sites and Q1 may not have that. So that recovery is also not coming through. Just wanted to understand some of these elements.

M.B. Chinappa: We do not really compare our business on sequential basis but against the same quarter previous year. But if we look at Q4 and Q1 especially post the fire incident, it is flat at Rs.291 crores. Some impact is there on account of the currency between Q4 and Q1… I do not have the exact numbers on that. That is the element of improvement that we are seeing as we are coming out of the fire incident. Then of course, there are various verticals which were down and some phasing up in this quarter. If we look up from a profitability angle, this quarter represents the increased salary cost, which was not there in Q4, some step up expenses as I mentioned earlier as we step up on BD activity and compliance. That is the second impact. Then there is hedging gains of Rs.16 crores this quarter, which we also we had in Q4 but lower interest income this quarter compared to the previous Q4.

Mohnish Dave: I have two more questions; one, on the manufacturing side, I think the initial guidance was 1:1 asset turnover. What kind of asset turnover do you think we can achieve by FY'18 on the facility that have been commissioned so far, which is the formulations facility and the biologics facility by let us say FY'18 and FY'19 given the contracts that you have in hand? Second on the margin profile, in the last quarter's conference call, there was guidance given that there will be 2-3% margin decline given some of the initiatives on business development and the safety quality spend that the management was undertaking. We have not seen that come through in Q1. So is that expected to come through in Q2 and Q3?

M.B. Chinappa: Yes, expenses will gradually build up and thus show up. In Q1 also because of the large hedging gains, we are not really seeing the full impact on the other expense line. Going to your first question of asset utilization, typically, scale up of existing businesses like where we have already got some traction going, we look at achieving asset turnover at the exit of year two. So year three normally we will achieve 1:1 asset turnover. The new business like moving to commercial manufacturing, we are not in a position to guide as to how long it will take to get to that position.

Mohnish Dave: But with the orders that we have received so far, is there a sense of what capacity utilization that we are getting out of the Japanese contract?

M.B. Chinappa: That would be serviced from our existing facility in Bangalore at least for the next couple of years.

Jonathan Hunt: Chanderlekha, I understand that is it, we have reached the end of the question queue. What I wanted to do before wrapping up is maybe just make a couple of summary comments. I think if we look at the quarter, we have seen good recovery in our revenue growth. I think it is more to do in this quarter and I am happy that we are heading in the right direction and would keep building that revenue momentum. Profit margin performance continues to be solid, good cost control. I think we have laid out for you some of the additional investments we are making and they should drive revenue growth in the longer-term and of course in the two deals that we saw in the quarter that we discussed are good strategic indicators of really about how we are progressing on that strategic agenda. Chandra, do you have some summary 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, you can get in touch with me. We look forward to seeing you again in the next quarter. Have a good day.

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