

## Syngene International's Q1 FY 2020 Conference Call

July 25, 2019

### Key Participants from Syngene International

- Mr. Jonathan Hunt: Chief Executive Officer
- Mr. M.B. Chinappa: Chief Financial Officer
- Mr. Mahesh Bhargat: Chief Operating Officer
- Mr. Karthik: Investor Relations

**Moderator:** Good afternoon, ladies and gentlemen, and welcome to the Syngene International's First Quarter FY 2020 Financial Results Conference Call. At this time, all participants' lines are in listen-only mode. Later, we will conduct a question-and-answer session and further instructions will follow at that time. As a reminder, this conference may be recorded. I would now like to turn hand the conference over to Karthik who will coordinate the call on behalf of Syngene's Investor Relations Group. Please go ahead, Karthik.

**Karthik:** Thank you. Good afternoon and thank you for joining us. On today's call, we have Mr. Jonathan Hunt - Chief Executive Officer of Syngene and members of Syngene management team to discuss the Financials and Business Performance for Q1 FY20. After our prepared remarks, we welcome your questions.

Before we begin, I would like to caution you that comments made during this conference call today, July 25, 2019 will contain certain forward-looking statements and must be viewed in relation to the risk pertaining to our business. The Safe Harbor clause indicated in our 'Investor Presentation' also applies for this conference call. The replay of the call will be available for the next few days immediately after this call and the transcript will be made available in a week's time on the company's website.

With that, I will turn the call over to Mr. Jonathan Hunt. Over to you, sir.

**Jonathan Hunt:** Thank you, Karthik. Once again, may I welcome you all to this Earnings Call to discuss Q1 results. Let me begin by giving an overview of our business performance for the quarter, brief comment on the financials and I will follow it up with key operational updates. Mr. Chinappa, our CFO, will give more details of our quarterly financials in his comments.

The revenue for the quarter increased 4% to Rs.441 crores, and that compares to Rs.425 crores during the corresponding previous year quarter. This reflects steady growth in our Discovery Services and Dedicated R&D Centers verticals, offset I think by more muted performance in our other businesses, Development Services and Manufacturing Services. Both these verticals were impacted by rephasing of projects, either as a consequence of a later-than-expected project start or changes in client specifications. The impact of this is that these projects were now completed later in the year and consequently we expect growth rates to pick up over the next couple of quarters.

Turning to profitability, we saw both EBITDA and PAT grow faster than revenue in the quarter with EBITDA up by 11% to Rs.142 crores, PAT for the quarter up by 9% to Rs.72 crores. The margin performance is good, coming in well within our expectations for the year, EBITDA recording a margin of 32%, PAT coming in at 16%. So, both measures of profit were in line with our expectations for this part of the year.

Let me move on to some of the operational highlights for the Quarter. Firstly, I would call out the successful completion of the USFDA audit of our Human Pharmacology Unit in our Clinical Development business. This is the seventh successful USFDA inspection for Syngene and I think highlights the robust systems and processes that we have in place.

Second highlight is the progress we made during the quarter in expanding our research operations. As you may know, we plan to open new research facility in Hyderabad later in this quarter. We selected Hyderabad because of the excellent infrastructure, favorable ecosystem for life sciences research and the availability of

an excellent scientific talent pool. So, the facility is in the final stages of construction and is on track to open this quarter. We plan to expand it in a phase wise manner, with Phase-1 opening around 50,000 sq.ft. of lab space and that is enough space for around 150 scientists covering chemistry and also biology.

Also during the quarter, we continue to strengthen the leadership of the organization. And we are delighted that Dr. Mahesh Bhalgat joined us as Chief Operating Officer. He comes with over 25-years of experience in the field of biotechnology, biologics and has worked across multiple areas of R&D including analytical development, technology transfer, regulatory sciences and quality. Mahesh will be responsible for operational efficiency, safety, integrity and ensuring that we continue to deliver differentiated world-class services to all of our clients around the world.

So, to sum up, Q1 started on a positive note. And while the revenue growth was at the lower end of our expectations due to re-phasing of projects, we do expect growth rates to pick up through the remainder of the year. Overall, we are progressing well on our strategic priorities as we continue to invest in quality, safety, scientific talent and business development activities.

So, with that, let me call on Chinappa to walk you through the quarter's financials.

**M.B. Chinappa:** Thanks, Jonathan. Good afternoon, everyone. As always, I will start with a brief commentary on the reported performance for the quarter covering revenue, EBITDA and profit after tax. I will then touch upon the impact of interest income and the currency movement and finally close with an update on our ongoing CAPEX program.

As already mentioned by Jonathan, revenues for the quarter grew by 4% to Rs.441 crores compared to Rs.425 crores last year. If you recall my address in Q1FY19, I had mentioned the revenues were boosted by a one-off raw material cost pass-through billing of about Rs.40 crores. To really analyze this quarter's performance, it is important to take that Rs.40 crores off the revenue line and the material cost line last

year. Excluding this one-off item, our underlying revenues have actually grown by 15% YoY. The primary drivers as we already mentioned is the steady growth in Discovery Services and the Dedicated Center business. But, some of the phasing of the development and manufacturing businesses has lowered the growth rate for this quarter. We had about 3% benefit on account of the currency movement.

EBITDA for the quarter is Rs.142 crores which is up 11% compared to Rs.128 crores in Q1 FY19 and profit after tax is up by 9% at Rs.72 crores compared to Rs.66 crores last year. EBITDA and PAT margins for the quarter are 32% and 16% respectively which is slightly lower than the adjusted full year average of last year, but well within our expectations for this part of the year. For the quarter, we recorded interest income of Rs.20 crores associated with the finance charges of Rs.7 crores and income taxes of Rs.7 crores. Therefore, the adjusted EBITDA margin excluding the impact of interest income for the quarter is 29% and PAT is 16%.

Let me now talk about the cost elements, the material and power cost as a percentage of revenues is 27% for this quarter compared to 26% last year. This is after adjusting for a one-off pass-through in Q1 FY19 as I just mentioned. Similarly, employee cost as a percentage of revenue is up 30% compared to 28% in Q1 FY19. This is mainly because of the increase in headcount which reflects the growing demand for our services and the effect of the annual salary increment. We continue to invest in safety, compliance and business development to further strengthen our position.

Moving to other expenses, we have classified certain expenses relating to property as finance and depreciation charges in line with the new accounting standard. This is reflected in a reduction of Rs.4 crores in other expenses and a corresponding increase in depreciation and finance charges. Besides this, there was also a marginal decline in general overheads during the quarter.

Moving on to FX and the impact of currency movement on the financials, as you know, most of our clients are based outside India and they are predominantly

invoiced in US Dollars. However, our reporting currency is Indian rupees. During the quarter, we had FOREX gain of Rs.2 crores compared to a gain of Rs.11 crores in Q1 FY19. This reflects the difference between the forward rates versus the prevailing spot rate. The hedge rate was 50 paise above the spot rate during the quarter. Also, we have hedged for the full year and therefore do not expect any negative impact of the recent rupee appreciation. The effective tax rate has marginally decreased to 17% in Q1 FY20 due to the revenue mix and the impact of some of the new units that are expected to go live later this year.

Coming to balance sheet, we have invested approximately \$30 million towards ongoing CAPEX program in this quarter of which \$12 million pertains to the API manufacturing facility and another \$12 million pertains to the Discovery Services. With this CAPEX infusion, our fixed assets currently stand at \$330 million and we are on track to take our overall asset base to \$550 million by the end of FY21. The construction of a commercial API manufacturing facility in Mangalore is on track and is scheduled to be operational by end of FY2020. We expect the second phase of the upgraded S2 facility to also be operational by the end of this year. And with regards to the insurance claim, we have so far received Rs.81 crores and expect to receive the balance proceeds over the next 12 months.

Overall, as Jonathan mentioned, it is a positive start to the year and we expect growth to accelerate in the second half of this fiscal, taking up full year growth and margins to be in line with the directional outlook that we had given in the last investor call.

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

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

**Surya Patra:** Since in this quarter there is a phase-out of a couple of projects in the manufacturing and development side, and that could have to some extent impacted

the growth for the quarter, can you share what would be the revenue mix between your three key segments for the last year in terms of percentage?

**Jonathan Hunt:** Chini, do you want to give a sort of a sense in terms of the broad shape between the different verticals if you think about Discovery Services, Development Services and then the Manufacturing part maybe Dedicated Centers as well?

**M.B. Chinappa:** Yes, Surya, the Dedicated Center is actually about a third of our business, 33%; Discovery Services 29% and Development and Manufacturing about 38%. That is the broad mix of the business of last year. There is always a small play between the different segments.

**Surya Patra:** With the efforts that we are seeing currently - the manufacturing capability at Mangalore is likely to contribute little later, but other manufacturing capacities that we have created and the R&D capacity that we have built in Bangalore as well as the Hyderabad, how would that change the revenue mix going ahead for this year sir?

**Jonathan Hunt:** In terms of the prospective revenue mix, I would not think it would change materially, I think the percentages you got would be a good indicator of where I would expect the full year to land plus or minus a few percentage points, but it sorts of in the landing. The Mangalore plant does not come online until next year. And when it comes online, it will be a brand new state-of-the-art factory, but it will be an empty factory on day one. So, that in itself is unlikely to materially rebalance the mix between Discovery Services, Dedicated Centers and Manufacturing. We should start to see some change towards the end of the next fiscal. But it is a mid-term play for that to really start to reshape.

**Surya Patra:** So, when do you think these manufacturing capabilities we are building or have built so far – like the API plant, the Biologics Manufacturing unit and the Mangalore unit, are likely to really start contributing to your performance?

**Jonathan Hunt:** I think the Biologics is starting to do that today. Over the last couple of years, you have seen a small but growing contribution to revenue from Biologics. That has the opportunity to continue to drive growth this year and into next. So, that is the sort of the more near-term driver out of manufacturing. I would caution you on the Mangalore investment. It is a long-term investment. Plant like that has something like a 30-year asset life. So, I do not think you should focus on the next four quarters or even eight quarters. We are still constructing it, expecting to finish by March of next year and then we will take it through a qualification process and start to build the first client base. But I would be tracking that over the next three years not over the next three quarters.

**Surya Patra:** This is an opportunity to congratulate Mr. Bhalgat and to get a sense from him about the progress that we should be seeing and the milestones that we have so far achieved on the Biologics front?

**Jonathan Hunt:** In fairness to the Dr. Bhalgat, it is week two with the company. It is a wonderful question, but it is probably almost unfair for you to ask him on his ...

**Surya Patra:** Jonathan, you can possibly add something here.

**Jonathan Hunt:** I will happily contribute a comment, but at the same time maybe a quick comment from you, Mahesh, at least in terms of your broader perspective on Biologics and the demand in the market rather than specific one on your assessment of Syngene given that it is week two and I know you have already made an impact, but that is an awful lot to be done quickly.

**Mahesh Bhalgat:** Thank you for the question. And as Jonathan said, I am still getting my feet wet, I am still literally landing in here to understand the business. But, overall from a Biologics perspective, I think we all know this is the trend that the industry is going towards. More and more molecules are the ones that are coming out now from a transition from chemical development to biological development. So, while I appreciate that question, Surya, I think that is the kind of growth that we will also

expect to see in our business as the industry moves in that direction. And of course, for that we will do everything that we can to capture that growth in that market.

**Surya Patra:** Jonathan, if you could just add the milestones that we have achieved so far on the Biologics front?

**Jonathan Hunt:** I would take the journey of the last two or three years – building a plant, getting it up and running, qualified, we have received an EMEA approval. In the past, we have had our first client wins, we have actually produced, co-discovered, developed, and manufacture a biologic product that goes through to a global client. So, we are making all of those right first enabling initial steps. Beyond that you have to forgive me, but I am not going to be drawn on giving you a forecast for the coming year or years. But strategically, we are happy that we have capability and capacity in the Biologics market.

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

**Prakash Agarwal:** Could you give some color on the S2 which you mentioned is going again live. So, what we are adding in terms of area, scientist and revenue potential? also, for Hyderabad, how big could the site be?

**Jonathan Hunt:** Yes, very happy to do that. Chini, I am going to look to you to maybe to just summarize where we are with S2. You may want to make some comments also about the insurance claim and how that is progressing. S2, you remember, was an already well-established facility predominantly Discovery Chemistry focused. When we had the event around the S2 fire, we lost that capacity. So, to some extent, one of the ways of thinking about S2, it is a state-of-the-art facility that is being renewed and upgraded and is now coming back, but it is largely replacing capacity we already had rather than adding capacity to it. But I will leave Chini to give you the specifics of how far through we are with that and what it means on the financial terms, in terms of the insurance claim. Let me just jump to your other question about Hyderabad. Hyderabad is a new discovery campus for us. As I said I think in my

introductory remarks, we are going to do it in a phase wise manner; the first phase should be open and operational during this quarter. It is a relatively small first step. It is 50,000 sq.ft – enough capacity for about 150 or so scientists. Very quickly after that, we will have Phase-2 available to us, does not necessarily mean that we will start operations in Phase-2, but Phase-2 would allow us to double the headcount, double the floor space. So, it just gives us some near-term headroom for expansion should we see client demand. And the second thing it will do, it will allow us just to decompress some of the lab space here in Bangalore by moving some of that work to Hyderabad. That is a good thing in terms of creating a great working environment for our scientists and also making sure that we have a very operationally efficient plant. One or two of our labs are a little bit more crowded than we would like because we have grown quite quickly in it. So, let me pause there and look at Chini. Do you want to just give a few comments about S2 where we are?

**M.B. Chinappa:** Prakash, we did not get premise of a question, but just overall three floors are operational and the one floor which is the ground floor, will commission by the end of this fiscal. Overall, the S2 capacity is coming back onstream, has not always been attached to incremental business unlike let say Hyderabad that will support incremental business. But a lot of the S2 capacity as it came back online was linked to decompressing or reducing the pressure of the other facilities which were working a double shift when we implemented the BCP post the fire incident. I am sure I answered your question, but it is not really a barometer for growth if you look at the S2 capacities coming up online. Relating to insurance, as I mentioned in the call, we have filed for the second installment. We expect to receive that in this quarter, that is July to September, and overall, the full insurance receipt was expected to be realized over the 12-months period.

**Prakash Agarwal:** In the past, we have talked about our investment phase in terms of quality, compliance and senior level hires, and that is how we have seen the staff and other expenses moving up. Now given that the fact that we are still guiding for +20% kind of growth and that to more from second half onwards, would it be fair to

think that the growth rates would surpass the cost escalation that we see? Can we expect some margin expansion upwards of around 30% and above?

**Jonathan Hunt:** We do not give a specific quarter-by-quarter, year-by-year margin guidance. We have talked extensively with the analysts, investors in the past around the sort of range that we are comfortable with. An EBITDA margin in the low-30s, but it is bit of a spread around that low-30s range is one that we are very comfortable with, we think that is indicative of a well-run quality business. And then if you drop that down at the PAT line, PAT margins in the high teens up to 20% again are indicative, if you look at global peers, of being a well-run added-value business. So, we are comfortable with both of those. Structurally, I think it is well understood by the analyst community that at some of our SEZ infrastructure, the SEZ tax shield unwinds, there is a little bit of a temporary headwind but we are still more than happy that we can deliver a business in high teens, 20% or so range at PAT level. But that is through a business cycle. So, that is not a prediction for a particular quarter or a particular year. In general, we are quite happy with the margin structure of the business. It stands up well I think versus our global peers as being upper quartile. Going to your comments around investments in safety, infrastructure, processes and even leadership, we see those as a virtuous circle. They are one of the reasons why we delivered 28% revenue growth last year because it is differentiating in the market. The stronger our quality environment, the better our infrastructure, the more capable and experienced our leadership, it is a differentiator for our global clients. So, we see those as investments that we want to continue to make because we see them paying dividends on the top line and that ultimately flows through to a strong cash flow and profit performance.

**Prakash Agarwal:** You mentioned about the \$550 million CAPEX by 2021. So, would it be fair to think that it is \$100 million each or it is more skewed towards the fiscal 21?

**M.B. Chinappa:** Till now \$330 million is capitalized, \$50 million is work-in progress and then another \$170 million to be spent over the next two years, you could broadly split that up by two.

**Jonathan Hunt:** If you do straight line over the two years, it is a good approximation as any.

**Prakash Agarwal:** On the tax rate, last time you mentioned about this sunset clause being getting over and all. But we are at 17% for the quarter. Would we still take 20% or could we expect around 17%, 18% for the year?

**M.B. Chinappa:** We expect tax rate to come in lower and that is linked to a lot of new capacities going onstream and the additional depreciation associated with that.

**Prakash Aggarwal:** So, can it be around 17%, 18%?

**M.B. Chinappa:** Yes, I estimated 17%, but it should be in that range 17% to 18%.

**Moderator:** Thank you. The next question is from the line of Aditya Khemka from DSP BlackRock. Please go ahead.

**Aditya Khemka:** Firstly, Chini, on the top line guidance that we generally gave of 20% growth for FY20 as opposed to FY19, on reported basis, since you have done 4% in the first quarter, do you still feel comfortable with that 20% YoY growth number?

**M.B. Chinappa:** I will just answer this question first. If we look at last year's growth of 28%, it is about the particular impact of the one-off pass-throughs and the currency. That takes us to about 20% growth at constant currency for last year excluding the one-offs. In last call, I had indicated that we expect revenues growth for FY20 to come in around that number, and of course, if we start at 4% for Q1, it means that Q2, Q3 and Q4 should be at much higher rate to take us to an average of 20%. It will be more biased to the second half, not specific quarter.

**Aditya Khemka:** But are you still comfortable with the 20% number?

**Jonathan Hunt:** Yes, I mean, the operative word was around. You said point estimate 20%. We said around 20%. But, that is the plan.

**Aditya Khemka:** I was just looking at the fact that the other expenses are down 13% YoY whereas your depreciation is up 27%. Could some part of it be because of the lease accounting measures where you have capitalized the lease? Are you amortizing it instead of showing it as a lease expense in the other expense line item?

**M.B. Chinappa:** I want to correct myself on the previous question, I said Q1 growth came in at 4%, Q1 growth at 15%, and that is the rating over the rest of the year to average 20%. Back to the second question, total other expenses for last year was Rs.242 crores which averages Rs.60 crores per quarter. Against that average, this quarter we are at Rs.52 crores. If we add back the impact of the lease accounting, we will get to Rs.56 crores. This quarter expenses are slightly lower than our quarterly average.

**Aditya Khemka:** The 4 crores shifts from the other expenses to the depreciation and amortization line item, is that correct?

**M.B. Chinappa:** Rs.4 crores, yes.

**Aditya Khemka:** Given the situation in the innovative segment, if you look at the innovator pharma companies, all of them are struggling with getting new products out there and even facing competition in some of the very high-end biologics space through biosimilars. I do not know how they are thinking about their R&D budgets, but intuitively, it may feel that they may want to relook at those budgets and maybe rationalize a few projects. How does that read across to a model like yours? I appreciate the fact that you guys helped them reduce some of the cost by outsourcing it, but does that not also imply lower volumes over a period of time as the success rate of innovation is incrementally falling and the cost of innovation is moving up in the developed markets?

**Jonathan Hunt:** I think you half-answered your question with your question, which is you are absolutely right. The way we add value and create value for our clients is through affordable innovation. So, innovation is indistinguishable from the quality of science that they can do themselves, but done partly because of scale benefits, partly because of operating cost arbitrage as well as an intellectual arbitrage that allows us to create value. We, in some ways, deliver innovation while releasing their CFOs from the burden of a CAPEX budget and their heads of R&D by either lowering their operating costs or giving them the opportunity to do more science for the same amount of money. So, those three things together are quite a compelling proposition and even more compelling in an environment where budgets across the value chain in large biotech and pharma companies are being squeezed. Remember, we operate at the front end of the value chain for seven and eight years upstream of the market conditions that you described as being challenging. So, there are two different conversations you need to look at there. The science that you are seeing is struggling as it comes through to the marketplace. It is ten-year-old science from our point of view and it is very distinctly different from the level of excitement there is at the front end around what science and opportunities are available. So, I think it is quite a vibrant period for innovation. It is just 10-years away from the market if you are using market conditions and product launches as you lens on it. We are some way upstream on there. Hopefully, amongst those three or four points, you can pick at and answer and see why we are relatively excited and confident about the proposition we have for our clients and clear-sighted on where it creates value for them.

**Aditya Khemka:**No, I get your point. If I may just pick on it, not only is their R&D budget shrinking, but their outsourcing budgets are going up, which means that the in-house R&D budget would be drastically falling, is that the correct interpretation?

**Jonathan Hunt:** Well, it could be, but I am not sure which companies you have got in mind and there is a whole universe out there and each one would be in a different part of their cycle. So, I do not want to make a specific comment given that I would need to go through the R&D budgets of each one of our major clients and major

people in the market. But, in general, I think one of the structural shifts is heads of R&D globally are not necessarily carrying two budgets or two pockets in their trousers, they do not see it as in-house R&D, out-house R&D, two different budgets, it is just science – just a budget and a way of getting that science delivered. And that is a structural shift that is driving the success of businesses like Syngene because it is no longer seen as an either-or. It is just another way of delivering innovation and it stands equal and alongside doing things in-house. But I think they see that as a false choice.

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

**Dheeresh Pathak:** Chini, which quarter do you take the wage hike?

**M.B. Chinappa:** This quarter April to June.

**Dheeresh Pathak:** What was the base of scientists at the end of FY19, and how many scientists do you plan to hire in FY20?

**Jonathan Hunt:** I will take the second part of the question. We are not going to give you a prospective view of how many scientists we anticipate hiring during the course of the year. I do not think we have ever done that. The general run rate though just to give you some maths is of two master's degrees and Ph.D. every working day, but do not use that as a forward basis for a forecast.

**Dheeresh Pathak:** What is the attrition number last year?

**Jonathan Hunt:** It has been pretty stable over sort of the last three, four, five years. We are little bit behind what I see as normal in the Indian industry. So, it would be in the mid-teens, fairly stable. If you want to delve deeper into attrition, what we tend to find, I think this is true for many other businesses in our sector in India, the highest attrition is in your newest, youngest recruits. There are often freshers coming straight out of university and to some extent they are really trying on their first world of work

experience. So, they are just likely to leave in their first year to go to a competitor or reinvent themselves as an entrepreneur because they are young, they are energetic and they are trying to find out what they want to do in life. So, that was where you would see the highest attrition. If you map it through in Syngene, if you get to sort of year three with us, firstly, you have done really well because we have high standards and the people that get through the first three years have performed and have proved themselves to be very capable. After that, our attrition rate starts to drop quite markedly. And if you make it through into management and senior leadership our attrition rates look like I would expect to see in Europe or the US, i.e., low single digits. So, I think it is manageable. It is a little bit more vibrant or dynamic at the front end, but that reflects I think that we hire an awful lot of young scientific talent very early in their career journey.

**Dheeresh Pathak:** What percentage of your scientists' pool would be onsite where you would be paying dollar or US salary?

**Jonathan Hunt:** I am not sure if I understand the question. I think maybe your question is translating from an IT, BPO business where they put scientists into their client's laboratories as it were or software engineers into US sites. The answer to that is we do not do that at all. It is not part of our business model. So, 100% of our staff would be 100% working on our own sites because that is the essence of the business.

**Dheeresh Pathak:** For the Mangalore API plant, when it comes up in the first year of operation, which is FY21, what would be the rough estimate of the fixed overhead cost which you would incur irrespective of whether you got any revenues or not?

**Jonathan Hunt:** I think it is a little bit too early to getting into that level of detail. So, you have to forgive me if we take that one for another day. We are more focused on building the plant at the moment and we are guiding about what its operating cost would be.

**M.B. Chinappa:** Dheeresh, the number of scientists is 4,060 as at the end of March 2019.

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

**Charulata:** What is the contribution of Discovery Biologics to revenue?

**Jonathan Hunt:** I am afraid we do not have a figure we could break out. I would refer you back to the comments Chini made earlier where he gave you the general balance between Discovery Services, Development Services, Dedicated Centers, Manufacturing. Chini, would you mind just sort of rephrasing those numbers?

**M.B. Chinappa:** Charulata, Discovery Services business represent 29% of the revenue, I am talking for FY19; Dedicated Centers 33% and Development and Manufacturing 38%.

**Charulata:** My second question pertains to the certification of the Biologics plant. You mentioned that the plant has received EMEA approval. Do you plan for US FDA approval and by when?

**Jonathan Hunt:** That is an excellent question. What I would do is take a slight sort of detour in answering it, which is that, remember, of course, we do not have our own product pipeline. So, it is not us making applications to the regulators and therefore we do not control the timing of those regulatory inspections. It is set by our clients though our whole expectation, aspiration is that one of our clients does exactly that – they had a product that we are working on that they take to either the FDA or the EMEA and that triggers a regulatory inspection and therefore regulatory approval. Beyond that I could not give you specific guidance because that would be in the hands of our clients, not our own. It is not a discretionary decision for us.

**Moderator:** Thank you. The next question is from the line of Shrikant Akolkar from Ashika Stock Broking. Please go ahead.

**Shrikant Akolkar:** I would like to know what is the contribution of top-10 clients in your revenue?

**Jonathan Hunt:** While we are looking it up, I would make a comment that more broadly you have seen a slight rebalancing over the last two or three years. We are quite comfortable with the degree of concentration we have, but it tends to become a little bit more diffused. So, the top 1, top 5, top 10, however you want to measure it, is making up a little bit lower proportion of revenue. But, at the same time, some of the relationships with our top clients have accelerated in terms of the deepening of those relationships, and we are now adding more services and more service offerings for them which is a positive thing. It is a metric that is worth keeping a track on, but I do not think it is particularly fundamental metric for us and from a management point of view. But Chini, do you want to make a comment?

**M.B. Chinappa:** I am trying to recollect that IPO time in the document, I think it was 69% top 10-clients, as of FY19, it has come down to 62%.

**Shrikant Akolkar:** Second question is on the CMO facility. Have you already started discussing with potential clients or have you signed any deal so far?

**Jonathan Hunt:** Discussing, yes. Signing, I would not make a comment.

**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; I think we had embarked on the \$200 million CAPEX program three years back, of which \$100 million was for Mangalore and \$100 million was in Bangalore for SRC for the Biologics facility, etc., which got commissioned. Can we get an estimate of how these are ramping up and if there is an estimate of revenue from these CAPEX that we completed in Bangalore recently?

**M.B. Chinappa:** Mohnish, just because you have referred to the \$200 million CAPEX, today, all our CAPEX programs put together is expected to take our fixed asset base to \$550 million. It is a total of \$350 million new CAPEX program that have started post IPO and looking at \$550 million as at the end of FY21. As of today, we have invested \$330 million in terms of capitalized fixed assets and another \$50 million

which is lying in CWIP. In that \$50 million capital work-in-progress, we have \$33 million towards Mangalore. The rest is practically against investments in Bangalore with the only exception being the new facility coming up in Hyderabad.

**Jonathan Hunt:** And then, Chini, I think the second part of the question is, could we give a sort of revenue split for each unit of CAPEX that we have put in? I do not think it will surprise you, Mohnish, if I say 'no', we are not going to break that out. But if I remind you, some of the things that we invested in, expanded the Syngene research center here in Bangalore, that was part of that program, that is up and running, fully operational and operating at a high level of utilization. So, from a post-project review, that is creating shareholder value and operates well beyond our cost of capital. So, that business is up and running. Other things that we had invested in the stability center. Similarly, fully operational, up and running, and the formulation center, fully operational, up and running. And that facility because it was one of the more recent ones we are growing into that capacity, that business grew well last year, they still got headroom for more growth. So, they are going up the asset utilization curve. Beyond that I would not give you any more specifics on the financials.

**Mohnish Dave:** So, not specifically, but directionally if we were to look at an asset turnover of let us say approximately one, at least from the recent CAPEX that got commissioned over the last two years, what is the ramp-up profile like and how do we see attaining that one-time asset turnover over a period of time, how close or how far are we in terms of say quarters or years?

**Jonathan Hunt:** I would not break it down. Let me sort of try and answer it this way. Through a business cycle I think 1:1 asset turn is not a bad approximation that we would expect. Is that right, Chini?

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

**Mohnish Dave:** The second question that I had was on the Dedicated Centers business. The last 2 Dedicated Centers that we commissioned were with Amgen and Herbalife in 2016. Although we have signed fairly large contracts, we have not seen

any conversions into Dedicated. Is there any color around being able to generate more Dedicated facilities ?

**Jonathan Hunt:** I can give sort of a broader comment. I think our first Dedicated Center was something like a decade in the making. Second Dedicated Center was about six years in the making. Our third Dedicated Center was more like three years in the making. It tells you that the adoption cycle or the sort of growth cycle is shortening as our reputation and the visibility of the business becomes better globally and I think also it becomes a little bit easier for clients to get comfortable with that concept when they are coming to a campus that already has major clients with a proven track record. If we had something to announce, we would have announced it. So, I cannot really answer the question. It is a circular question.

**Moderator:** Thank you very much. That was the last question. I now hand the conference over to Karthik for closing comments.

**Karthik:** Thank you, everyone for joining today's call. Hope we have answered all your queries. If you have any questions, please do get in touch with me. Have a good day.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Syngene International Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.