

## Syngene International's Q2 FY 2020 Conference Call

October 23, 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 evening, ladies and gentlemen and welcome to Syngene International's Second Quarter FY 2020 Financial Results Conference Call. At this time, all participants are on 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 hand the conference over to Karthik who will coordinate the call on behalf of Syngene's Investor Relations Group. Thank you and over to you.

**Karthik:** Thank you. Good evening 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 Q2 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, October 23, 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:** Thanks, Karthik, and once again, thank you all for joining us on this call to discuss the Q2 Results.

Let me begin by giving you brief overview of our financial performance for the quarter and then I will share a little bit more some of the operational highlights, and then Mr. Chinappa, our CFO, will cover the financials in more detail in his address.

So, starting with the headline financials, happy to report robust growth of 11% in Q2 revenues, that was up from Rs. 437 crores in the corresponding quarter last year to Rs. 485 crores this quarter. This growth was driven by the continued expansion in our Discovery Services business combined with steady performance in the Dedicated R&D Centers and the Development Services businesses.

Looking at profitability, EBITDA for the quarter increased 10% to Rs. 160 crores. That is pretty much in line with revenue growth and pretty much in line with where we expected. Profit after tax saw 5% increase to Rs. 82 crores, adjusted for the one-off exceptional gain in the quarter, PAT was up 64% to Rs. 128 crores. EBITDA and profit after tax margins remain within the historic range that we have seen in the business over many- many quarters, and the profit after tax is a notch lower on QoQ basis. This is due to increasing headcount which we take is a reflection of growing demand for our services as well as our continued investment in leadership, quality, compliance, safety and of course business development activities. As I have emphasized before, these investments really should be looked at as long-term investments for improving revenue and operational efficiency. In the quarter, we also received the third installment of the insurance claim for the S2 building which resulted in the exceptional gain of Rs.46 crores, net of taxes. I will leave that to Mr. Chinappa to talk more about it in his address.

So, let me now move on to some of the business updates for the quarter. Delighted to share that the first phase of our Hyderabad facility is now up and running. We did a soft launch for that back in August. As I mentioned in my last quarter's address, phase-1 comprises of 50,000 sq.ft. of state of the art lab space housing a team of up

to 150 multidisciplinary discovery research scientists. Initially we are going to offer Discovery Chemistry Services from Hyderabad; however, we have the option to place other Discovery Services at that facility. The way we look at it is the Hyderabad facility is not just a satellite facility but, it really offers us the option if we want to build that into second center of excellence for Syngene's Discovery Services alongside our campus here in Bengaluru.

Another highlight of the quarter was the successful completion of yet another US FDA inspection without any 483s or major observations. The audit was conducted to inspect our facilities viewing them from an analytical laboratory for general GMP coverage and we received confirmation this morning from the FDA on the positive outcome.

As the research partner providing scientific research services to many global organization, quality standards and compliance are of course extremely important to us. The continued successful inspections not just by the USFDA, but also by other regulators as well as clients, is a strong testimony of our robust systems and processes that we have got in place and that they consistently allow us to meet what we see as the required international standards.

So, with that, let me conclude my overview for the second quarter and I will just do a quick summary before handing over to Mr. Chinappa. Q2 was a good quarter from a revenue point of view in line with our expectations. We saw as we anticipated step up in a sequential YoY growth on a reported basis when you compare that to Q1. We expect to sustain that sort of growth momentum into the second half. I think we are making good progress on our strategic priorities both in the small and large molecule space, and we are going to continue to make the strategic investments that we think are important to strengthen our service capabilities, operational efficiency and as well as those really key areas of quality, compliance and safety.

So, with that, let me hand over to Mr. Chinappa to take you through a little bit more detail on the financials.

**M.B. Chinappa:** Thanks, Jonathan, and good evening to all. Let me start with the financial highlights for the quarter and then go through forex, insurance and capex.

Looking at the financial highlights for the quarter, as already mentioned by Jonathan, revenues for the second quarter grew by 11% to Rs. 485 crores, and this compares with Rs. 437 crores in the same quarter last year. Discovery Services continue to drive growth supported by consistent performance in Dedicated R&D Centers and Development Services business. On a CER basis, growth was also at the same level at 11% as the average net realization for both the quarters was approximately Rs. 70 to the dollar. EBITDA for the quarter was at Rs. 160 crores, up 10% compared to the same quarter last year, while profit after tax before exceptional gain is at Rs. 82 crores, up 5% compared to Rs. 78 crores in Q2FY19.

During the quarter, we had the exceptional gain amounting to Rs. 46 crores net of taxes, and this relates to the insurance claim of S2 building. EBITDA and profit margins excluding exceptional gain for the quarter was at 33% and 17%, respectively. I will talk more about the insurance claim in a bit.

During the quarter, we recorded interest income of Rs. 20 crores. Associated with this are finance charges of Rs. 8 crores and income tax of Rs. 7 crores. Therefore, the adjusted EBITDA margin for the quarter excluding interest is 30% with the profit after tax margin excluding exceptional gain at 17%.

Moving on to the cost elements, Material and power cost as a percentage of revenues in Q2 FY20 is at 28% which is similar to Q2 FY19. Employee cost as a percentage of revenue is at 27% compared to 26% in Q2 FY19 and should trend down in H2.

Other expenses for the quarter are up by about Rs. 7 crores, reflecting a ramp-up in facilities as well as on account of various initiatives in business development, safety and compliance.

During the quarter, we had forex gain of Rs. 3 crores compared to a loss of Rs. 5 crores in Q2 FY19. The gain reflects the difference between the forward rates and the prevailing spot rates. The hedge rate was 50 paise above the spot rate for the quarter.

A quick update on the first half performance, revenues have grown to Rs. 927 crores, up 8% compared to Rs. 862 crores in the same period last year. If we exclude the one-off cost in H1 FY19, the revenues is up 13%. EBITDA at Rs. 301 crores is up 10% compared to Rs. 273 crores in the same period last year, while profit after tax excluding exceptional gain is Rs. 154 crores, which is up 7% compared to Rs. 144 crores in the same period last year. EBITDA and profit after tax margins for the first half excluding exceptional gains stand at 32% and 17% respectively.

Coming to Tax, as you may be aware, the Government of India recently announced changes in the corporate tax rate as well as the GST applicable on select services. The effective corporate tax rate has been reduced from 35% to 25.2%. However, the reduction will not benefit us in the near future as the effective tax rate is already below this level. The effective tax rates for the quarter has decreased to 17% mainly due to the revenue mix and impact of the new units that are expected to go live during the year.

The GST notification that came out in September provide exemption on export of Toxicology, Analytical, Stability and Clinical Services. This will benefit approximately 10% of our business, and as a result, all our export services are now exempt from GST.

With regards to the insurance claim related to the S2 facility, we have received Rs. 97 crores in the quarter taking the total amount received till date to Rs. 177 crores against a total loss of Rs. 106 crores. This has resulted in an exceptional gain of Rs. 46 crores, net of taxes. We expect to file the final claim over the next three months and receive the last installment in the next fiscal.

Now coming to the balance Sheet, in the first half of this fiscal, we have invested approximately \$50 million towards ongoing capex programs, of which \$19 million

pertains to the commercial API manufacturing facility; \$18 million towards Discovery services and the balance towards Dedicated Centers and Development Services. With this, capital infusion, our fixed assets currently stands at \$400 million, including CWIP of \$50 million. Overall, we are on track to take our total asset base to \$550 million by the end of fiscal 2021.

The construction of our commercial API manufacturing plant at Mangalore is on track and is scheduled to be operational by the end of this fiscal.

To summarize, it has been a good quarter and revenue is largely in line with the expectation. We expect to build on this momentum in the second half of the year with strong all-round growth.

With this, I conclude my financial overview and happy to take any questions that you may have.

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

**Prakash Agarwal:** Sir, my first question is regarding the commentary in Q1 where we had talked about rephasing of few projects which led to a softer growth in Q1. Have we captured some part in Q2, and if you can quantify that would be helpful?

**Jonathan Hunt:** Yes, what we tried to flag in making that comment in the first quarter was that 4% reported revenue that we saw in the first quarter was not indicative of the outlook for the full year and that we expected during the sequential quarters that followed to build a bit of momentum. So, I am not sure whether or not I will pin it on any particular project not happening in the first quarter reappearing in the second, just a sense of there is a cyclicity sort of phasing in the business that is perfectly natural and that our assessment of that was that we would pick up pace in the second quarter. And of course, I am delighted to say that we did. You can see that in the numbers, 11% reported revenue growth for the quarter.

**Prakash Agarwal:** I was trying to understand more from if we had some addition to Q1, then Q2 would be lower than 11%, right? So, I am just trying to understand on an H1 basis, should we look at 8% or it should be higher than 8%?

**Jonathan Hunt:** I would leave you with that modeling conundrum for yourself. I think we have done the best we can to direct you to our expectations and we flagged that we thought 4% in the first quarter would rise and it did.

**Prakash Agarwal:** On the commentary on second half momentum picking up. Is it a function of either the capacity addition which we have done over last 12-months being completed and orders getting started or that confidence also is coming from the China disruption where we might be getting new orders already or at least the talks would have been started, if you could throw some broad level highlight that would be helpful?

**Jonathan Hunt:** I will come back to the sort of China geopolitical question in a moment and make some comments. I hate to say it is a bit more mundane than that. It is not about capacity that is being built sitting idle waiting for clients, and I am looking across the management particularly at my commercial colleagues leading sales and business development. Perspiration is the key. It is about hard work, getting out meeting new clients and making sure they know what we can do for them. So, I think the second half momentum is going to come out of the capabilities we already have and the relationships we already have, but then that is not surprising because we are in an enviable position, we have good partnerships, good relationships with 15 of the top-25 biopharma companies in the world. We have over 330-plus ongoing live relationships with clients. So, we are getting to the point where we have quite a large footprint in terms of exposure to clients and I think that changes the nature. It is not about growth only comes with adding new logos. Always happy to add new logos and that as an element of the BD guys as well, but just as much comes from step ups in volumes of existing relationships or adding new services. So, I hope that gives you a flavor of that. Going back to the China bit, I would not overplay it. There are multiple reasons why customers look to partner with research organizations like

us around the world. There are some very good and capable companies in China. One or two of them of the organizations that I think we admire and I know they do a good job. But at the same time, I am not going to underplay the capabilities we have. I think we can add every bit as much value as they can. And from that point of view, we are both viable companies in terms of providing services. There has been some sentiment shift. Number of Western clients feel that they are overly exposed, overly committed to China, and they are looking to rebalance that. I think as you have seen over the last decade differential evolutions of the economies, the Indian economy has done well. I think the Chinese economy has grown a little bit further ahead of it. And that comes down to things like labor rates, cost of operations. And I think a number of our Western clients recognize they can get even better value here in India. And of course, Syngene will be delighted to provide that to them.

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

**Surya Patra:** Sir, just wanted to have a sense on the S2 facility which is now likely to return to operations. Whether it is coming in the same safe structure and similar kind of a potential revenue contribution or what would really it mean for us in the near-term?

**Jonathan Hunt:** Excellent question. Let me clarify a few things. The S2 building reopened a year ago. So, do not confuse the receiving of the insurance payment this quarter with the operational return to work. The upgraded, enhanced, refurbished the S2 building, came online at least a year ago. They have been operational and has been driving the growth over the last 12-months-plus. So, that is not a marginal thing for you to think about is that an inflection point for revenue. It is up, it is running, and it is contributing. But Chini, do you want to say a little bit broader just to remind everybody where we are with the insurance, what has happened so far, what happens next?

**M.B. Chinappa:** Surya, we have commissioned this, it is four floors. First floor went live last year, then to the end of the year we added second floor, this year we commissioned the third floor, and the last one floor, which is ground floor will be commissioned toward the end of this fiscal. So, it has steadily added capacity over the period and supported the revenue growth. As we complete the fourth floor, we will file the insurance claim and we expect to receive that in the next fiscal. Any receipt of insurance claim from here on will result in exceptional gain.

**Surya Patra:** And that particular facility houses how many scientists?

**M.B. Chinappa:** Between 400 and 500 scientists.

**Surya Patra:** Sir, second question was on the capex number. So, cumulatively so far we have done something like \$400 million. So, out of that, what is the number that is currently operational and what is the number that is in the various stages of development or creation?

**M.B. Chinappa:** I did capture it in my opening remarks. \$50 million is in CWIP and \$350 million has been commissioned as of today.

**Surya Patra:** Third question on the growth. So, just wanted to have a sense, I believe the Discovery Services has been one of our star growth contributor. My belief is that possibly the growth in the Development and Manufacturing Services possibly is relatively lesser than the growth momentum in the Discovery Services. Kindly clarify if I am wrong? And also if you can provide some growth visibility for the Development and Manufacturing Services. How should one really look at that piece in terms of growth?

**Jonathan Hunt:** Our Manufacturing Services group particularly if you think about that as commercial manufacturing, does not really exist for the year. We are still building. We have spent the last couple of years developing the site that we have got over in Mangalore, we got 40-acre campus there. On those days that it is not raining, which seem to be few and infrequent at the moment, we are building very, very quickly.

But we do not actually expect that infrastructure to be completing the building phase until the end of this financial year, the beginning of the next fiscal. At that point, we then need to start qualifying it, putting early start-up projects in there and we will build from there. Now it is something that comes up just about every quarter. I largely give you the same answer each quarter. So, forgive me because I am going to do the same thing again today, which is we are focused on building to time to cost to quality. I think the right time for us to revisit this is no sooner than the end of this financial year maybe with the full year results when we would have completed the building and we can start maybe helping you think about the next phase. The aim of course with the big capital investment like that is to create value beyond your cost of capital over the life of the asset, the life of an asset like a manufacturing campus and the infrastructure on it such as buildings, is multiple decades long and I am confident that we will create value beyond the cost of capital over the life of the asset. It is a bit premature to start the quarter-by-quarter revenue watch. We have made the investment, we are building it to plan. Now there was an element of your question that I think is worth reinforcing. You said what about the differential growth rate to Discovery Services. That seems to be picking up. And I think you are right. I think our Discovery Services group compared to say two, three, four years ago is more sophisticated in service offering. It has got more visible on a global basis and I do think that the growth momentum you have seen over the last couple of years from that group is a bit stronger than even the analyst community or maybe even we expected. So, it is not that manufacturing is going slow, it is the Discovery Services is growing a bit quicker and I quite like that combination. So, I think the strategy we have, integrated Discovery Services allied to a separate integrated development group allied to integrated manufacturing group, small molecule, large molecule is a sensible one in terms of it allows us to meet just about any need one of our major clients would have. Hopefully those comments help you.

**Surya Patra:** So, in this process, if you can possibly add something on the progress that you would have seen on the large molecule things in terms of the customer

addition or in terms of any tie-up that you have done, so that would help in manufacturing aspect of large molecules?

**Jonathan Hunt:** An excellent question. I sort of pointed to you the intention would be to review that at the full year.

**Surya Patra:** When you say that the Mangalore facility which could be operational before the end of the current fiscal, so whether it would be operational partially first in phases or it would be all at a time?

**Jonathan Hunt:** No, no, I did not say operational, I said constructed. The project moves in a stepwise fashion. Finish construction then move to validation and sort of operational start up, then move into commercial operations.

**Surya Patra:** I mean, capitalization of the asset will happen at one go or it would be in different phases?

**M.B. Chinappa:** Of course, the Mangalore plant will be also stepped up in phases. So, what we have seen to-date the \$70 million investment is really in the first phase, and once we start to get traction, we will look to build on that. I cannot give you an exact number on the amount that will be capitalized as of March 31<sup>st</sup> but the main production block for certain will go live by that date.

**Surya Patra:** So, that means in phases only that will be capitalized and the cost would be accordingly in a staggered manner only will be built into the P&L, is that right, sir?

**M.B. Chinappa:** In a short period of time, the entire Mangalore plant \$70 million first phase will be capitalized.

**Jonathan Hunt:** The premise of the question is the right one, which is at the point it becomes operational in some sense from an analyst modeling point of view, they need to understand the capitalization and then the depreciation. And I think what I was suggesting is we would be delighted to give you some guidance on that with the full year results.

**M.B. Chinappa:** In terms of that it is to give you a sense of what are the capitalized cost and what could be the operational cost going forward.

**Moderator:** Thank you. The next question is from the line of Nishant Chandra from Temasek. Please go ahead.

**Nishant Chandra:** I am trying to understand the business development momentum specifically in the US. Can you provide any color on the rate of addition there, because between FY18 and FY19, I think the momentum of client addition has been moderating, right? So, I am just trying to understand have we sort of reversed that moderation or is it still continuing to flatten out?

**Jonathan Hunt:** I have to go back and do the math. I think the difference might be annual growth of 16 or 18 clients in one year versus annual growth of 15 clients in the other year in that order. So, while mathematically I would not dispute, it is moderating. I am not sure I would put any strategic importance on the difference between having 16 or 17 new logos in one year and adding 15 in another. It is well within interpretive degrees of freedom. But it also suggests to some extent the underpinning thought that growth comes only by adding new logos, new clients. It does not. As much if not more of the growth momentum is about going deeper into your relationship with an individual client. And that transition from being fully engaged in a strategic partnership with the client from having done the first bit of work with them can be many years because it is a relationship built on trust and repeated delivery. We track things like that more and put more weight on it than we do than something as important but simple is just adding a new logo. You had a supplementary comment?

**Nishant Chandra:** Fair. I will tell you where I am coming from. I look at gross margin growth as the proxy for value addition growth and if you look at it that way to adjust for let us say the pass-through elements between revenue and material and power costs and all of that, which is there in FY19. What I am trying to understand is whether the moderation in client growth is effectively translating to a slowdown on gross

margin growth that we are seeing between FY18 to FY19 to now H119 to H120. So, if you look at gross margin growth between FY19, FY18 and even going back in time, the gross margin growth has generally been 20%, whereas this year YoY growth is around 8%, I am just correlating data here because we do not have access to all the details, but mathematically, it is correlating with a one year lag compared to the client addition slowdown that we saw last year. So, I am just trying to see if there is any pattern to it and hence the reversal in that pattern.

**M.B. Chinappa:** Just for gross margin again as I said do a net of material, staff cost and the power and utilities and that will be the real core gross margin. H1 of this year has been slower growth than the H1 of last year. We expect things to pick up in H2.

**Nishant Chandra:** On a related note then, is it fair to say that you are seeing visibility of either billing growth per client or number of clients or a combination of that at this point of time because if you are looking at a recovery in H2, then you should already have visibility of contracts at this point of time looking at H2 FY20, right, that is what you are saying?

**M.B. Chinappa:** Yes, absolutely. I think that naturally comes out that if you are growing the business, it has to come out in one of the two, either new client addition or expansion of business with existing clients.

**Nishant Chandra:** What is our business development strength in the US subsidiary now, how many people do we have in the US subsidiary?

**Jonathan Hunt:** That is not what I think we will ever put into public domain. And again, if I do a little bit of comment, it is not purely a quantity game, it is much more a quality game, and is a sort of business-to-business type sell. So it's not about your frequency of interaction with your customer, It is about the quality of the discussion and your ability to anticipate their needs. So, we have a growing footprint globally in terms of ability to connect to clients through BD. But then the specific numbers are something that is sort of commercially sensitive vis-à-vis our competitors.

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

**Charulata Gaidhani:** The biologics plant, are you seeing any traction in the business and what are the non-current investment of Rs. 325 Cr in the balance sheet?

**M.B. Chinappa:** Of course, the expansion of our biologics business is a large part of our growth story. We are seeing good demand in this space and we expect biologics to be a good contributor to our growth going forward. On the non-current investment, these represent fixed deposits that coincide with the loan repayment which is scheduled for March of 2021. Fixed deposits which mature on end-March 2021 have been classified as non-current investments.

**Charulata Gaidhani:** There is a tax holiday for the Mangalore plant, right?

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

**Charulata Gaidhani:** So, FY21, what could be the tax rate?

**M.B. Chinappa:** We will comment on FY21 along with the full year results for FY20 in terms of potential revenue growth, tax rates, and costs.

**Jonathan Hunt:** But just to put a bit of color on that or at least to make sure I understood the question, do you mean specifically what will be the tax rates applicable to the Mangalore plant or do you mean what is the impact of the Mangalore plant on the group effective tax rate?

**Charulata Gaidhani:** The impact of the Mangalore plant on the overall tax.

**Jonathan Hunt:** We will try and answer both of those I think, at the full year. But I would caution you of course, I go back to the sort of theme of the last four quarters with these questions around Mangalore. Starting next year, it is not going to be a plan to driving an enormous amount of revenue across the company. There is no reason to expect that it would be. It is a brand new manufacturing facility that will be

undergoing qualification. And then in time, we will build the client base. So, just from that comment, you can probably suggest that it would not be the key driver of the company's effective tax rate.

**Moderator:** Thank you. The next question is from the line of Shaleen Kumar from UBS Securities. Please go ahead.

**Shaleen Kumar:** I just missed the initial part of your commentary. Sorry if you have to repeat it. If I remember correctly, you were guiding somewhere around mid-teen to high-teen kind of a growth, and considering that in first half we have achieved 8% growth, are we sticking to have growth guidance for the full year of around mid-teens or are we revising it?

**Jonathan Hunt:** We are happy with the way revenues evolved during the course of the year, it started off at 4% reported revenue in the first quarter. We said it would need to build in the second and it did up to 11%, and from our full year expectation of sort of mid-to-high-teens growth, you can back calculate that we need to have a stronger finish to the year and continue the sort of sequential acceleration. But at the half year point, we think we are on a reasonable track to do that, quite a lot more to do in the second half and quite a bit of hard work to deliver it, but for now, it is where we expect to be and it is about execution.

**M.B. Chinappa:** Shaleen, just to add to that, just look at H1 performance as a low-teens growth, it is 13% adjusted for the one-off pass-through from last year.

**Shaleen Kumar:** I am happy to look at it, but should we look at in that way, but is our guidance was based on adjusted number or how should we look at it?

**M.B. Chinappa:** Yes, our guidance was based on adjusted number. I clearly called out that adjusted for FX and the one-off pass-through.

**Shaleen Kumar:** Also, just like a bit of a basic question more of an understanding starting point of view. I believe that your contract, it is more about recognizing the

revenue, right. So, when we see this kind of ramp-up happening in H2. What exactly works? I am sorry, it is a very basic question, or my understanding is completely wrong over here.

**M.B. Chinappa:** For the dedicated center the revenue can be spread evenly across all quarters. Discovery Services, again it is steady across quarter and just reflects the full year ramp-up in the business. It is the Development Services which is about close to 40% of our business. These projects are delivered, and revenue is recognized on delivery of the projects or completion of the projects, and this could vary between quarters.

**Shaleen Kumar:** So, there is no seasonality in this like more skewed towards second half or is there some kind of seasonality? We see more delivery happening or more projects getting introduced in the first half and delivery happening in the second half?

**M.B. Chinappa:** No seasonality in the business, however, like I mentioned earlier, it is dependent on how long the project takes to finish. And as of now, this is more bunched into the H2 rather than H1 in this year.

**Shaleen Kumar:** One more question, this is more related to the book-keeping kind of thing. From your cash flow statement, I just want to understand what is in the working capital movement increase in other assets and decrease in trade payables contributing to?

**M.B. Chinappa:** We do receive a lot of customer advances at the beginning of the year and that gets accounted into revenues this year, a reduction in that, and that makes a big difference in the cash flow for a particular season. So, if you have to look at it on a full year basis, I mean, you look at it on a six-months or quarterly basis, it does not reveal the real picture under this.

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

**Prakash Agarwal:** I just wanted to check on the forex cover that we normally take for the next 12-months. If you could help us what is the rate for fiscal 20 and 21?

**Jonathan Hunt:** So, Chini, forex hedging policy, where we are, the benefit we have seen in this quarter and then what our outlook is for the rest of the year?

**M.B. Chinappa:** As per our hedging policy, we do look to hedge probably in 12-months 100%, and in that regard H2 is hedged at about 2% above the current prevailing market rate and FY21 is hedged at about 4% above the current market rate.

**Prakash Agarwal:** Secondly, there is one thought I think I asked the last quarter also. It was premature then, but having spent some time, I know BMS being our largest anchor client, have you started seeing some initial talks with the close out of the Celgene acquisition?

**Jonathan Hunt:** It is an interesting question. I think it is a bit premature for that, so much as they have not closed out yet. So, there is a general sense and standstill. If you know much about Hart-Scott-Rodino legislation in the US, for antitrust reasons, you just cannot be seen to be operating as a combined entity until you have reached that legal point. But what I would say is that both of the parties in that question are organizations that we have interactions with and know well. So, for us at least it is two companies that we have done work with coming together rather than introducing us to a new party.

**Prakash Agarwal:** We also cater to Celgene in a reasonable manner?

**Jonathan Hunt:** I think you can take that from my comment.

**Moderator:** Thank you. Well, ladies and gentlemen, that seem to be the last question for today. I would now like to hand the floor back to the management for their closing comments. Over to you.

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

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Syngene International Limited, we conclude today's conference. Thank you all for joining us. You may disconnect your lines now.