

## Syngene International's Q1 FY 2019 Conference Call

July 26, 2018

### 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

**Moderator:** Ladies and gentlemen, good day, and welcome to Syngene International's Q1 FY19 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 will now hand over the conference call to Ms. Chanderlekha Nayar. Thank you and over to you.

**Chanderlekha Nayar:** Thank you, Stanford and good afternoon everyone, thank you for joining us today. On today's call, we have Mr. Jonathan Hunt – Syngene's Chief Executive Officer and members of Syngene team to discuss the financial and business performance for Q1 FY'19. After our prepared remarks, we will welcome your questions. But before we begin, I would like to caution that comments made during this conference call today will contain certain forward-looking statements and must be viewed in relation to the risks pertaining to our business. The Safe Harbor clause indicated in our investor presentation also applies to this conference call. The replay of the call will be available for the next few days immediately after this call and the transcript would be made available in a week's time on the company's website. With this, I will turn over the call to our CEO, Mr. Jonathan Hunt. Over to Jonathan.

### Jonathan Hunt:

Thank you, Chandra. Good afternoon and welcome everybody to our discussions for Syngene's Q1 FY'19 Results. I will start by providing a high-level summary of our financial performance of the quarter and then follow with some comments on the business operations. As usual, I will then turn over to Mr. Chinappa, who will give you a more detailed walk through of the quarters financials and the P&L before we open up for your questions at the end.

Let me start by saying we are pleased with what was a good start to the year. The first quarter delivered revenue growth of 38% taking us from Rs.308 crores in the corresponding quarter last year to Rs.425 crores this year.

The growth was primarily driven by solid performances in Biologics Manufacturing, Discovery Services and Chemical Development Services. The underlying performances in each of these areas was good. In addition, our biologics performance received an additional boost from an increased level of raw material pass through billing in the quarter, but I will leave Chini to make some further comments on that.

Moving from revenues to our profit performance, you can see that EBITDA grew by 13% to Rs.128 crores and profit after tax grew by 6% to Rs.66 crores and delivered a PAT margin of 16% for the quarter. I will leave it to Chini to give you greater details around other elements of our quarters financial performance.

Let me focus my comments now on giving you a bit more detail on some of the business operations: During the quarter, we were delighted to see Baxter Healthcare extend and expand their agreement with Syngene, for the Baxter Global R&D Centre until 2024. So, it is quite a long range visibility on the agreement. This agreement will see some expansion of the scope of our engagement with Baxter and will also see us set up some additional infrastructure for BGRC Center. You might also be aware that Syngene and Baxter set up lab research center back in

2013. Today, it is called Baxter's global research engine, which supports research and development of medical products and devices and focuses on products and analytical development and pre-clinical evaluation in parental nutrition and renal therapy.

Thinking about the last quarter, you may also recall that we announced a strategic multi-year drug discovery collaboration with British drug giant, GSK. So, during the quarter we made significant progress in operationalizing this collaboration and the dedicated team of Syngene scientists are now up and running and working with their respective GSK colleagues on accelerating drug discovery projects using Syngene's discovery services platforms. So, good progress there and we are very happy with the speed with which we have got this collaboration up and running.

Also during the quarter: We were happy to re-commission Phase 1 of the upgraded S2 facility at our main campus here in Bangalore. This brings online 35,000 sq.ft. of lab space to support future growth and when fully commissioned, the facility will have a total lab space of 165,000 sq. ft.

Keeping up with our track record of successful regulatory audits, Syngene cleared another USFDA inspection, our 7th. This one was on our formulation, stability and quality control unit. As you know, we place a very high priority on ensuring that we operate to the highest regulatory standards in the world. So, it is satisfying to see that Syngene team is continuing to maintain strong record in this area.

So, let me sum up: Q1, good quarter.

- On revenue, we reported a strong quarter, helped a little bit by both currency and "one-time" pass-throughs in Biologics. We believe if you take those out and look at on an underlying basis, the growth was good and absolutely in line with our plan for the year.

- Margins were in line with our expectations for the quarter and indicate we are “on-track” for the year. Chini will talk a little bit more about that as you bridge from the quarter to underline.
- On the client front, the contract extension with Baxter is a real strategic positive and we are happy to report that we made fast progress in making the GSK relationship operational.

So, with that, let me turn it over to Chini to discuss the financials.

### **M.B. Chinappa:**

Thanks Jonathan and good afternoon, everyone. I will discuss our financial results for the first quarter of FY19 starting with the revenues.

During the first quarter we reported Rs.425 crores in revenues compared to Rs.308 crores in the same period last year, reflecting an increase of 38%. The revenue for the quarter was boosted by higher raw material pass-through billings of about Rs.40 crores and 3% benefit from rupee depreciation.

Therefore, to arrive at underlying revenue growth as opposed to the reported revenue growth, we need to exclude the impact of the higher raw material pass-through billings and the impact of the currency movement. Net of these items, the underlying revenue growth for the quarter was 22%. As you may recollect, we had indicated that the full year FY19 revenue growth would be slightly higher than the FY18 revenue growth of 17%. As such Q1 indicates a good start to the year.

The underlying revenue growth for the quarter was well balanced with good growth in Discovery Services and Development Services and particularly good growth in Biologics.

Let me shift gears now to discuss the gross margins. By gross margins I mean total revenues less material and power cost and net of employee cost too. The effect that the higher pass-through billing has also resulted in an increase in raw material cost thereby bringing down gross margins to 42%. If we exclude this one-off cost from our margin calculation, the gross margin for the quarter was at 46%, which is in line with full year FY18 reported margins.

EBITDA for the first quarter was Rs.128 crores, which is up 13% compared to Rs.113 crores the same period last year. Our profit after tax at Rs.66 crores is up 6% as compared to Rs.62 crores during the same period last year.

Again, if you exclude the impact of the higher raw material cost pass-through billings from EBITDA and PAT, the underlying EBITDA and PAT margins are at 33% and 17% respectively. The margins are a notch lower than our guidance for FY 19. As you may recollect, we had indicated that our FY 19 EBITDA margins are expected to be in line with our Q4 FY18 margins, while PAT margins for FY 19 will be impacted by higher depreciation and income tax.

I also want to reiterate the “twin effect of increase in depreciation and income tax”, as per my last commentary in April, 2018. Increase in depreciation is linked to the fact that we have commissioned newer facilities including the S2 unit, the biologics manufacturing plant, the formulations plant and new research labs. The tax rate has increased to 20% in Q1FY19 compared to 18% in Q1FY18, due to the unwinding of the SEZ tax holiday benefits in some parts of our business.

Please note that the reported revenues for the quarter also includes interest income of Rs 19 crores. Associated with this, are finance charges of Rs. 8 crores and income tax of Rs. 6 crores. We expect interest income to gradually reduce during the year, as we deploy additional funds into the business.

Coming to the balance sheet, the net cash position as on June 30, 2018 is Rs.175 crores compared to Rs.320 crores as on March 31, 2018. The reduction in cash is mainly on account of the capex spend, which was about Rs.143 crores and impact of reduction in custom advances. As we receive about one-third of our annual revenues in the quarter Jan to March, we typically have a reduction in working capital in the quarter Jan to March and an increase in working capital in the other three quarters.

On the capex commitment, during the quarter, we committed additional \$5 million of the total planned capex of 200 million. With this our total committed investment stands at \$113 million as at June 30, 2018. This includes \$77 million for expansion of facilities in Bangalore and \$36 million towards the upcoming commercial API manufacturing facility at Mangalore. The Mangalore plant is expected to be operational in FY20.

We have reinstated the first phase of the upgraded S2 unit and we expect the second phase to be operational by end of this calendar year. With regards to insurance claim, we have so far received Rs.81 crores and expect to receive the balance proceeds over the next 12-months.

Finally, let me talk about currency. As you are aware, our revenues are predominantly invoiced in US Dollars, while our reporting currency is in INR. Our hedging policy is designed to cover against this risk and accordingly we remain fully hedged for this fiscal year. Our hedge rates are close to the current prevailing spot rates and the forex gains for the quarter stood at Rs. 11 crores compared to Rs. 16 crores in Q1 FY18.

Let me now summarize. It's been a good quarter and the momentum in revenues is in line with our expectations. The margins generally see an improvement over the year as fixed costs get absorbed over a larger revenue base.

With this I will now conclude my financial overview and open the call up for questions. Operator?

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

**Nitin Gosar:** Sorry, on the outset, I missed your commentary on what resulting into impact on the gross margin?

**M.B. Chinappa:** Nitin, I had indicated that revenues include Rs.40 crores on account of pass-through billing on material cost. So, that hit the gross margin, you need to strip out Rs.40 crores from the revenue and Rs.40 crores from material cost and that will give you the gross margins which is 46%.

**Nitin Gosar:** What is the reason behind having it this time totally different than previous way we used to account the numbers?

**M.B. Chinappa:** It is linked it to customer contracts. One, there was a change in contracting terms that required us to involve the entire material cost associated with the project with our commensurate service billings and the other is linked to contract, where we had to bill for the entire material cost upfront. This is the one-time cost and we do not expect this to recur.

**Jonathan Hunt:** Nitin, that makes sense, we had a contract with the client for multiple projects. We purchased the raw materials, we have not converted them or added any value to them, they were just the raw materials, the client changed their mind and for a good reason did not want to take that particular project forward. However, since we bought the raw materials, we billed them for the expenditure. In doing that we have added no values, so you do not create a margin on them, but you pass it through your revenue and raw material cost and that then has the depressing effect on your margins for the quarter.

Strip that high raw material pass-through billings, because fundamentally we are not in a wholesaling warehousing type of business and you get back to the underlying margins and I think what Chini indicated was EBITDA move on an underlying basis,

moves back to 33% and your gross margin moves back to 46%, both of those are exactly where we would want it to be and I think positive level of profitability within the business.

**Nitin Gosar:** Just a further clarification on this; so are we having this material on which we cannot do any kind of further value addition and have we taken a complete write-off from the P&L in the first quarter, is this the underlying understanding?

**M.B. Chinappa:** Yes, they have been expensed off, some materials will be returned back to the client.

**Jonathan Hunt:** But I would not conceptually think of it is being written off, it maybe been expensed through, it is not as if has not cost it Syngene anything, it is merely an expense that has gone through to the client and they have paid.

**Nitin Gosar:** The employee cost that we are seeing, does it completely accounts the commissioning of new facility for GSK?

**M. B. Chinappa:** Yes, in line with the ramp up you would expect employee cost to reflect.

**Jonathan Hunt:** But Chini, to broaden that, the increased employee cost year-over-year reflects the annual increment cycle across the entire company. It is not allocated to just one client, it includes any new staff we have hired to staff the GSK contract, but as it reflects we have every year at this time because you have the increment cycle at one point and you capture the full impact to that over the course of the year. So, nothing unusual there.

**Moderator:** Thank you. We will take the next question from the line of Prakash Agarwal from Axis Capital. Please go ahead.

**Prakash Agarwal:** Just trying to understand the movement in cost and movement in revenue. So, clearly revenue is being much better even if we adjust for this Rs.40 crores impact, growth is very solid. When do we see the matching principle in terms

of cost increase being lower than the revenue increase, I mean if I see the other expenses 50% plus kind of increase and we have earlier articulated that we are making investments but when do we see the normalization of these costs in terms of growth?

**M. B. Chinappa:** Hi, Prakash. As I indicated typically as the revenues ramp up you will see the expansion in margins because here is a step up in fixed cost associated with the range inflation and of course the ramp up of in headcount, increased investments in business development and commercial activity and in safety and compliance. So, all put together, we have seen a step up in fixed cost but that will be recovered as we step up in revenue.

**Prakash Agarwal:** Since you are reiterating 33% kind of EBITDA margins, just trying to understand that even if we adjust this Rs.40 crores, you get about 30%. So, going forward, we are talking about much better EBITDA margins as revenue growth is higher than the cost is what I understand?

**M. B. Chinappa:** Just stepping back, what I had indicated at the end of Q4 in April was that we expect FY19 margins to be in line with Q4 FY18 margins which imply 2% decline in margins as compared to the full year FY18. This 2% decline in margin as I indicated were associated with the step up in the commercial activity and increased investment in safety and compliance.

**Prakash Agarwal:** Q4 margins was about 33.5?

**M.B. Chinappa:** Q4 margin including the other income is at 34% and excluding other income is at 32%.

**Prakash Agarwal:** We are talking about excluding or including?

**Jonathan Hunt:** Prakash, what I am giving you is a point estimate, I think you have got quite a strong sense on how to model it, you have a range with a very narrow spread. So, I think if you look at our EBITDA margins it is in the range of 30-33 percent,

particularly the top end of that range, which is what we told you they are today on an underlying basis and they are top tier in terms of the industry benchmark and even at the global comparative group to CROs.

So, I think Syngene from an EBITDA and PAT margin point of view, Syngene is one of the better performer in the industry, which also reflects a sort of cost consciousness we have got in our operations. We constantly look to add value services, reflected in our pricing pattern.

I think the guidance Chini gave you for this year we will stay in that below 30 range over the course of the year. I think the margins are about right, but for contracts I think it is only fair, you judge those as being industry-leading.

What is more important to the long-term is that we continue to drive good top line revenue growth and the investments we are making there in business development and added value scientific services are part of a strategy that is to drive revenue leverage. But it still in P&L which already I think amongst the best in the industry.

**Prakash Agarwal:** What was the export incentive for the quarter this year and last year?

**M. B. Chinappa:** Last year in Q1 we had put full year export incentive pertaining to FY18, about Rs.21 crores of export incentive and the numbers for Q1 FY19 is revenue growth reflecting earnings for one quarter only, so there is no prior period impact here.

**Jonathan Hunt:** Last year multiple periods of export incentives were crunched together in one quarter, this year it is just a clean quarter and that is why there is the comparison difference.

**Moderator:** Thank you. We will take the next question from the line of Surya Patra from Phillip Capital. Please go ahead.

**Surya Patra:** Sir as you said that this quarter there is a one-off element of Rs.40 crores in both top line as well as bottom line. So similarly, was there anything in fourth quarter of last year?

**M. B. Chinappa:** Fourth quarter, the impact was very small, just under Rs.10 crores.

**Surya Patra:** Sir, one trend I observe in each year first quarter numbers is that irrespective of the growth in the revenue line, the absolute EBITDA or the PAT number if you see always remains lean in the first quarter compared to all other quarters. So, is this a trend that we are going to maintain going ahead so that we should be seeing a kind of sequential improvement like other years?

**M.B. Chinappa:** Yes, Surya, there is an increased step up in the fixed cost in the first quarter of each calendar year reflecting the wage inflation.

**Surya Patra:** And subsequently that we see recovery from the...?

**M.B. Chinappa:** Yes, this year margin improvement over the quarters to be in line with revenue growth.

**Surya Patra:** Having launched multiple capacities, is it possible to share what was the level of underutilization and in which part of the asset, so possibly that will give us some sense about the potential opportunity on that front if you can...?

**M. B. Chinappa:** Surya, we do not generally share that. Our principle is not subject to any section of the business or subject to very high underutilization or overutilization. If you see all our business units have some headroom for growth and that is constant, there is no one-off that is dragging down the margins or anything.

**Surya Patra:** Another point why I was asking this question is that possibly since you have commercialized or launched few new assets recently, so the level of underutilization and hence the unobserved overhead cost that would be there possibly could be higher, so that is what could be dragging down the profitability, so

how should one really look at those numbers and those underutilization levels for recovery in the overheads, all that if you can give some sense?

**M. B. Chinappa:** Surya, it is difficult to quantify the company as a whole but typically anytime there will always be some businesses that are fully ramped up, some that are ramping up. So, it is not something unique and it will not be there tomorrow. So, at any given point there is always some businesses that are in a ramp up phase, some are fully utilized.

**Surya Patra:** On the Biologics manufacturing side, what you have been commenting upon now that there is some meaningful progress on that front. So, does that mean we are now ready to share what is the kind of level of revenue or what we have started achieving on the Biologics services front for this manufacturing include any commercial launch supply requirements?

**Jonathan Hunt:** That is a good question, Surya. clearly, our communication we think Biologics is something for the future has come through to you. I think it is a bit too soon to be calling as a separate line item and giving that. By the way that just reflects the fact we are really only two quarters into this business, we are taking baby steps almost, albeit we are very happy with the progress we are making. Maybe that is something to revisit at a future date, but I do not think we are quite there yet with that, it would be disproportionate to the size of the rest of the business to be calling in as a line item. I think what we will do on future quarters is keep a clearer line of sight and give you a sort of contextual comment about how we are doing in Biologics and I genuinely do hope that sooner rather than later we had a level of success where it deserves and merits to call a line item in our reporting to you all of its own.

**Surya Patra:** On the Baxter deal, can you give me some sense of what is the level of multiplication that we can see on the FTE front from the current level of 150-odd FTEs, so over the years, what is the level will be...?

**Jonathan Hunt:** I like your question, so rather than being a multiple expansion, think of it as a percentage of fractional expansion, that will help you.

**Moderator:** Thank you. We will take the next question from the line of Punit Kumar from Reliable Investment. Please go ahead.

**Punit Kumar:** I have this question which is related to your reported result. Point # a) you have booked a loss of Rs.171.7 crores in this quarter. Point # b) in the result published you have taken Rs.171.7 crores because of item that will be reclassified to profit & loss. Would you please elaborate on that?

**M.B. Chinappa:** This is the mark-to-market adjustment on FOREX and interest hedge contracts. So, it is a balance sheet item, so every time we have forex gains, there will be an increase in the reserves and when there are losses reflecting the forex movement, there will be a decrease in the reserves. It is not a P&L item.

**Punit Kumar:** What is the corrective action that we do so that the company does not lose this kind of huge amount because of the treasury losses?

**M.B. Chinappa:** Last year we had similar gains and that is kind of reversed. As I indicated in my opening commentary, our hedging policy is to protect against the risk of currency movement and not have huge fluctuation in the P&L with currency movement. So, the hedging policy is in that direction and we will look to stay consistent with this policy.

**Punit Kumar:** In March quarter also you lost Rs.45 crores, now you are losing Rs.171 crores which is huge?

**M.B. Chinappa:** Like I said full year last year we had gains to this effect.

**Punit Kumar:** No, if you add the three, last year was March ending, you lost Rs.45 crores in Q4?

**M.B. Chinappa:** The currency movements are not a controllable factor. We look to hedge against these movements. Last year the rupee strengthened which could have impacted P&L, the hedge protected against the P&L and gave us huge MTM gains on a full year basis. This year Q1 has seen the rupee depreciate and that has caused us to reverse the mark-to-market valuation.

**Jonathan Hunt:** Thank you, Chini. I think that is a good overview where we are with our hedging policy.

**Moderator:** Thank you. We will take the next question from the line of Nishant Chandra from Temasek. Please go ahead.

**Nishant Chandra:** Chini, just a quick question on Q4 2018 number versus Q1. So, what was the share of the material revenue equivalent to the Rs.40 crores number in Q4?

**M.B. Chinappa:** Just under Rs.10 crores, Nishant.

**Nishant Chandra:** The second one is I am trying to understand is the reduction in forex gain that is there in the P&L for this quarter. So, should not that have an equal or offsetting number flowing through from a top line perspective and hence so the Rs.20 crores odd number delta that you see should have an equivalent Rs.20 crores growth number on the top line, am I understanding this right?

**M.B. Chinappa:** Yes, we have had 3% gains in the top line on account of the currency move, 3% gains moved up in the revenue line and Rs.11 crores sit in as a credit to other expenses.

**Nishant Chandra:** Because effectively the forex net gain or loss plus revenue plus operations, that should flow through one, in that context, I am just trying to understand the EBITDA decline of about 12% versus Q4. So, how should we think about that, there is an Rs.18 crores delta between EBITDA that we had in Q4 of 2018 versus Q1 of 2019, how should we think about that 12% decline? John, the broader point is this, I am looking at this business as a sequential layer-based growth business and to that extent I would do both comparison versus let us say some element of seasonality to adjust for look at same quarter prior year and to a larger extent I look at the earlier quarter which in this case is Q4 of 2018.

**Jonathan Hunt:** Correct, we do the same thing. My expectation is that if I look over multi-years of history, it is Q4 to Q1 is usually a sequential drop in an absolute sense. This year there is not really a drop. So, in a glass, half full, glass half empty world, the sequential performance I am interpreting is a real positive precisely because we have not seen the usual absolute drop.

**Nishant Chandra:** So, actually the sequential performance is indeed positive from a revenue perspective. Now then there are two additional cuts that we need to do to the revenue. So, the first one is I added together with the forex net gain/loss line which is the Rs.11 crores gain in this quarter versus Rs.31 crores gain in the previous quarter, so that provides some element of delta. And then on top of it, the Rs.10 crores material pass-through revenue of previous quarter versus let us say Rs.40 crores that provides us an additional sort of delta versus the previous quarter. So, then we will be looking at relatively apples-to-apples comparison and the revenue movement on a like-to-like basis has sort of moved adversely to a larger extent and expectation, I am trying to understand why that is the case? Headline I agree with you but when ...?

**M.B. Chinappa:** If you compare Q1 versus last year Q4 and the net revenue that of pass-throughs, there is Rs.40 crores decline in revenue and that is reflected in lower EBITDA.

**Nishant Chandra:** Exactly, that flows through straight. I am trying to understand why it has gone down?

**M.B. Chinappa:** Normally Q1 always start with a little bit lower number.

**Jonathan Hunt:** You try to understand why that is. To some extent, it just reflects our clients buying behavior, many of our clients will have an annual planning cycle, they would be locking in repeat annualized contracts in the fourth quarter.

**Nishant Chandra:** But most of the clients have a December year-end, right, so I was thinking that if anything it should work off their 4Q than our 4Q at all and hence I was a bit confused on why this happens but from what I understand is largely seasonality that is going through?

**Jonathan Hunt:** Yes, on revenue from for the last five, six years I have seen this trend.

**Moderator:** Thank you. We will take the next question from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

**Dheeresh Pathak:** Chini, I just wanted to understand the forex accounting. So, the revenue that you book is that the hedged exchange rate or is it at the quarter average or the realized exchange rate?

**M.B. Chinappa:** At the market rates, Dheeresh.

**Dheeresh Pathak:** The realized gains or losses on the hedges which come due in that quarter, they are reflected in this G-item it will be expensed?

**M.B. Chinappa:** That is right.

**Dheeresh Pathak:** The mark-to-market losses and gains on current assets, so you will have receivables, payables and all those things, those are also reflected in this G-item right under expenses?

**M.B. Chinappa:** For all our current assets and liabilities, yes, it would be restated, they are normally balanced off.

**Dheeresh Pathak:** The Rs.171 crores number in other comprehensive income that is on the entire unexpired hedge book, right?

**M.B. Chinappa:** Yes, that is beyond the current quarter.

**Dheeresh Pathak:** So, there is some discrepancy, right, because this Rs.171 crores is on the full hedge book which is one year forward revenues and what you are realizing on above EBITDA is the business in that quarter, so to that extent there is a mismatch, is that right?

**M.B. Chinappa:** There is a mismatch but yes, that is the way accounting is done.

**Dheeresh Pathak:** You are saying you have hedged for one full year?

**M.B. Chinappa:** Yes, plus we have the hedges that go into the year-two and some of the long-term fixed price contracts.

**Moderator:** Thank you. We will take the next question from the line of Abhishek Maheshwari from Walfort Financial Services. Please go ahead.

**Abhishek Maheshwari:** Sir, I just wanted to know if you could throw some light on your Biologics manufacturing facility like current utilization levels or maximum revenue generating at full capacity, could you talk a bit more about that?

**Jonathan Hunt:** In a moment, I will ask Manoj to give you a little bit of sense of what sort of capability we have built, some of the technologies that we have got in there and what we are looking to do. On your specifics utilization rates and maximum hypothetical revenue generation from the plant on the ground, we do not have any guidance on that, just something else I would choose to comment on at this point, but Manoj, maybe just a little bit of detail on what is the strategy and the clientele base we are looking to serve.

**Manoj Nerurkar:** Yes, Biologics is one of the important areas in the field of drug discovery and development and where we are seeing every client of ours and potential future clients to have their drug discovery and development pipeline getting heavier and heavier with biologics. But our strategy is to become a world-class partner by offering them the manufacturing platform that has the latest technology and I am sure you are aware of technology such as stainless steel, bioreactors that people used to put in where this manufacturing would take place. What we have now got in our case is really the 2,000 liters type of bioreactors which are single use disposable reactor. The advantage of these is that you do not need to do a lot of cleaning and so on. Your turnaround time is much faster, the manufacturing is much cleaner, there is least chance of any contamination and so on and so forth. So, it is really a cutting-edge technology and as I think Jonathan said we will look to ramp this up to get into stable utilization as we go through. The momentum on the Biologics business is very good and we are quite pleased with what we are seeing in terms of the overall growth momentum.

**Abhishek Maheshwari:** My second question is regarding how many molecules do you have in Phase-2 or Phase-3 and how we are progressing on that?

**Jonathan Hunt:** Just to remind that you go back to our core business model. This is a direct answer to that question which we have known, we will have added as a company we do not develop our own pipeline, we do not have our own assets.

**Abhishek Maheshwari:** No-no, I meant for client only?

**Jonathan Hunt:** Correct, but it is not something we have ever disclosed largely because for client confidentiality reasons. So, it is not really a metric that would be useful in tracking Syngene's evolution as a business.

**Moderator:** Thank you. We will take the last question from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

**Charulata Gaidhani:** My question pertains to the refurbishment of the facility which was impacted because of fire. Is it operational or when do you expect?

**Jonathan Hunt:** The comment I made earlier and maybe I was not clear, I should have been, the S2 facility is the one have been damaged and that is now upgraded, it is back operational at least the first phase, that is 35,000 sq.ft. it is now up and available to support growth and scientists already back in that building and working. The remainder of that will become operational I think during the course of this year and that would take it to 165,000 sq.ft. So, it is largely complete. The Phase-1 of that is operational and the rest of the building just need a little bit of a polisher fit and it is good to go. So, we would expect to have that sooner rather than later.

**Charulata Gaidhani:** So, that is around 50% of what was impacted?

**Jonathan Hunt:** No, once that is back up and running, that is 100% of the capacity that was impacted, would have been renovated, refurbished, upgraded and will be back on line.

**Charulata Gaidhani:** My second question pertains to the interest cost. Is there any MTM component in the interest cost?

**M.B. Chinappa:** Yes, because of the rupee depreciation, the interest cost had gone up to Rs.8 crores, this includes currency and the higher LIBOR.

**Charulata Gaidhani:** How much is currency?

**M.B. Chinappa:** Do not have the exact amount, but Rs.5 crores to Rs.8 crores is a combination of both, increase in LIBOR and the currency.

**Charulata Gaidhani:** How much was the constant currency growth in revenue?

**M.B. Chinappa:** Revenue excluding the impact of the one-off raw material pass-through billing is 22% constant currency and 3% you get to the higher rupee growth which is 25% and then add 13% you get to the reported numbers, 13% is impact of the pass-through and direct cost.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Ms. Chanderlekha Nayar for closing comments.

**Chanderlekha Nayar:** Thank you, Stanford and thank you everyone for joining today's call. Hope we have answered all your questions. In case if you have any questions, please feel free to get in touch with me. Thank you and have a good evening.

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