

Syngene International's Q3 FY 2019 Conference Call

January 23, 2019

Key Participants from Syngene International

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

Moderator: Good day, ladies and gentlemen and welcome to the Syngene International's Third Quarter Fiscal 2019 Financial Results Conference Call. At this time, all participants are in a 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, sir.

Karthik: Good afternoon and thank you for joining us. On today's call we have Mr. Jonathan Hunt - Chief Executive Officer, Syngene and members of the Syngene management team to discuss the financial and business performance for Q3 FY19. After our prepared remarks we welcome your questions.

Before we begin, I would like to caution that comments made during this conference call today January 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 the call and a transcript will be made available in a week's time on the company's website.

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

Jonathan Hunt: Thank you, Karthik. Good afternoon, ladies and gentlemen. Thank you for joining us to discuss Syngene's third quarter results for FY19. I am going to start by giving an overview of the quarterly financials and then quickly follow it up with some comments on the key operational highlights of the quarter, I will then hand over to Chini, our CFO, to share more details on the financials for the quarter.

The third quarter was a good quarter for Syngene. We are delivering robust performance across the board. We are happy to report 21% growth in revenue for the quarter, with quarterly reported revenue growing from Rs.399 Crores last year, to Rs.484 Crores this quarter. That growth was driven primarily with increased traction in our Discovery Services, that is Discovery Chemistry, Discovery Biology as well as our Biologics business. We will just take a moment to reflect on the year-to-date, this is the third consecutive quarter that we have seen very solid delivery from both our discovery chemistry and our discovery biology teams and I think that augurs well for the full year. Additionally, we are now starting to see positive early signs of demand for our biologics business.

Looking at the profit performance, EBITDA for the quarter is up 15% from Rs.138 Crore last year to Rs.158 Crore this quarter and PAT (profit after tax) recorded 6% growth from Rs.82 Crore to Rs.87 Crore between the third quarter last year and the third quarter of this year. Margin performance of the quarter was good with EBITDA and PAT margins were 33% and 18% respectively. That is pretty much in line with the historical levels that we had as a business and absolutely in line with our own expectations the way we would be at this point in the business cycle. Chini is going to give you a bit more commentary and details on the financial performance in a moment.

So turning now to some of the operational highlights for the quarter. I would call out the extension for further three years of our strategic collaboration with Merck KGaA as a key highlight. It is a good example the progress we are making in building long-

term sustainable partnerships with our clients. Syngene's association is a long-standing one, dates all the way back to 1998 and over the years we partnered with Merck on several drug discovery projects covering Protein Technology, Molecular Biology, Cell Science, Antibody Discovery and Antibody Drug Conjugate, for both small and large molecules and we are very delighted to be extending this relationship further.

Operationally, we have commissioned the new research laboratory for Baxter. As you know Baxter is one of Syngene's four dedicated center clients and as we had communicated earlier the extension of our collaboration with them until 2024.

We also continue to make good progress during the quarter on the continued investments that we are making to enhance safety, delivery, operational efficiencies as well as to drive sales and marketing initiatives. All of these activities are investments that are really enhancing organization capability and we believe that they will deliver value over the long-term.

So, if I summarize, we are making good progress on our strategic priorities. The reported financial performance is both robust and in line with our plans. Our focused investments in safety, operational efficiency and sales and marketing are starting to show results. I think that positions us well for further future growth.

So, with that, let me hand over to Chini to give you bit more detailed commentary on the financials.

M.B. Chinappa: Thanks, Jonathan. Good afternoon, everyone. Let me brief you on the financial highlights for the quarter, then take you through the performance for the first nine months of FY19 and end with the directional outlook for FY19.

During the quarter, as you would have noted, we reported our highest ever quarterly revenues of Rs.484 Crores as compared to Rs.399 Crores in the same period last year, reflecting an increase of 21%. The growth came largely from Discovery Services and Biologics Business. The benefit of the currency movement was about 6% during the

quarter. Also, as you may recollect we had nine month's export incentives bunched into Q3 of last year. This has had a 3% drag on growth for this quarter. So from 21 you take 6 out and add back 3 and that would bring you to what is the core business performance.

Moving on to the cost, as a percentage of revenues, the material and power cost has increased to 31% this quarter compared to 29% in Q3 FY18. This upswing is on account of the sales mix. We expect full year material and power cost as a percentage of revenues to be in line with the previous year's average of 28%. There were no concern on margins. This of course excludes the impact of the one-off pass-through of Rs.40 crores that we have recorded in Q1. Employee cost as a percentage of revenue is also marginally up to 25% of revenues compared to 24% in Q3 FY18.

The other expenses at Rs.56 Crores for Q3 is in line with the nine months quarterly average; however the number is lower than last year as we had some one-off cost in Q3 FY18. Overall, the increase in employee cost and other expenses reflect the increased investment in business development, safety and compliance as we have highlighted throughout the year. The depreciation has grown 23% for the quarter compared to Q3 FY18. This reflects the additional depreciation on our new investments in the research laboratories and the Biologics plant.

EBITDA for the quarter was Rs.158 crores, is up 15% compared to Rs.138 Crores in the same period last year. Profit after tax at Rs.87 crores and is up 6% compared to Rs.82 Crores during the same period last year. As Jonathan pointed out, EBITDA and PAT margins are 33% and 18% respectively. This is in line with our long-term average and YTD numbers. Again, when I say YTD numbers I have excluded the impact of the one-off pass-through.

The reported revenues for quarter include interest income of Rs.17 Crores associated with this our finance charges of Rs.8 Crores and an income tax of Rs.6 Crores. If we exclude the impact of interest income, the revenue growth for the quarter is 20% and the adjusted EBITDA and PAT margins are 30% and 18% respectively.

Coming to currency, as you are aware, our revenues are predominantly invoiced in US dollars while our reporting currencies in INR. During the quarter we recorded a forex gain of Rs.1 Crore compared to the gain of Rs.15 Crores in Q3 FY18. This is because the hedge rates are largely in line with the prevailing spot rate. The appreciation of the rupee against the US dollar in the quarter led to mark-to-market gain of Rs.140 Crores, that is reflected as part of other comprehensive income. This reverses the mark-to-market loss of Rs.128 Crores that we accounted in Q2 FY19.

Let us now talk about our nine months performance. During the first nine months of FY19, revenues have grown to Rs.1,346 Crores, up 27% compared to Rs.1,059 Crores in the same period last year. EBITDA for the period was Rs.431 Crores which is up 13% compared to Rs.381 Crores in the same period last year. Profit after tax is Rs.232 Crores which is up 5% compared to Rs.221 Crores in the same period last year. EBITDA and PAT margins excluding the impact of one off pass-through is 33% and 18% respectively. The effective tax rate has increased by 100 basis points to 19% in the nine months of FY19 compared to 18% in the nine months FY18. This is mainly because of the unwinding of the SEZ tax holiday benefit in some parts of our business.

Coming to the balance sheet, during the year we invested approximately Rs.438 Crores towards the ongoing capex programs. As a result, we have net debt of Rs.7 Crores as of December 2018, compared to a net cash position of Rs.320 Crores as of March 2018. We expect to reverse to cash surplus in Q4, following receipt of customer advances which normally comes in the month of January.

I would now like to give an update on our capex investment plan of \$200 million. In the first nine months, we have committed \$27 million bringing our total commitment to \$135 million as of December 2018. This include \$80 million towards the expansion of facilities in Bangalore and \$55 million towards the upcoming commercial API manufacturing facility at Mangalore, which is scheduled to be operational by the end of FY2020. As we have mentioned in the previous quarter, we expect the second phase of the upgraded S2 facility to be operational by the end of this fiscal. We have

so far received Rs.81 Crores of the insurance claim and we expect to receive the remaining amount over the next 12-months.

To summarize, it has been a good quarter and the revenues are largely in line with our expectation. We expect to build on this momentum and close the year with strong all round ground growth.

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

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

Nitin Gosar: Hi Chini, just one clarification on the capex part you said, so far we have incurred CAPEX of \$145 million cumulatively?

M.B. Chinappa: This is against \$200 million CAPEX we have committed 135 million as of December.

Nitin Gosar: Bangalore is 50 and Mangalore is 80?

M.B. Chinappa: The reverse; Bangalore is \$80 million and a new commercial API manufacturing in Mangalore is \$55 million.

Nitin Gosar: On the capacity front, the incremental 10% capacity which got lost because of this higher episode, now that is more likely to come back in the next six months?

M.B. Chinappa: Yes, that is right, over the next six months we will have all our capacities back.

Jonathan Hunt: Just to put some context on that, the majority of that building has been refurbished, it looks beautiful, we have got very nice facilities in there, we are bringing it online in stages, the first stage is already up and operational, we have got

scientists back in there working with clients and is being going on for few months now. The second stage which I think is the final one, will happen over the coming three to six months. So we are almost there. Moving back to being operation again, it is pretty much done, we are just slotting the teams and we are about half way through that, should get that finished in the next three to six months.

Nitin Gosar: The question is regarding to the overall research area. Right now we are having 1.3 million square foot? I am just referring to the PPT which was sent.

Jonathan Hunt: That is spot on, it is about right. When you are measuring in millions of square foot, that is a large amount of space; 1.3 we will do as the builder estimate I think is the expression. It is a large facility I think is the key point.

Nitin Gosar: Just to understand, our research work right now, are we on any kind of capacity constraint in terms of land space availability on the overall capacity that we have built in for the research part?

Jonathan Hunt: That is a good question. Nothing immediate. You phrased the question slightly differently. There is a difference between capacity and land. The capacity we are in good shape. I think we have got very clear plans and go out multiple years that allow us to be confident, we have the head room to continue to grow and that will meet the demand of our clients. Land is a much longer term issue. You are looking at a decade , 5 years and that is because of land is an undeveloped asset. So our land strategy looks on a long way. I think again we are in good shape but at separate distinction between land assets and land banking and then thinking also about capacity, but I see no reason for us not to be able to grow next quarter and coming into the next financial year because of an absence of capacity and we are in a good shape.

Nitin Gosar: Once we have done with this \$200 million capex, is there any meaningful capex to be lined up post FY20?

Jonathan Hunt: I hope so, but clearly it is not something that I could comment on today because we guide you on our capex plans as we sign them off, but I am sure with our business development team and the traction we are gaining with clients, we look forward to developing business cases that mainly have to continue to invest in Syngene. But there is nothing I could share with you today.

Nitin Gosar: So far we are having \$200 million plan and beyond that, there is no clarity as of today?

Jonathan Hunt: Beyond that there is nothing I am willing to share with you today. I think it is more accurate interpretation of my comment.

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

Charulata Gaidhani: My question pertains to the increase in raw material cost during the quarter. Why is there such a sharp increase?

M.B. Chinappa: Charulata, as I mentioned in the commentary, it is largely impact of the sale mix, we see this reversing out in Q4 and the full year average would be more in line with the full year average of last year.

Jonathan Hunt: If I may just put in another way, yes, we are recognizing the results, step up in material cost for the quarter. From the management perspective, we see it as the normal fluctuations you would see quarter-to-quarter overtime and actually I think Chini gave you some good guidance of where he expected to be for the full year. So it is not something particularly that is alarming us. Just normal variation we see quarter-to-quarter depending on the mix of business, but in general quite happy with the position on that aspect.

Charulata Gaidhani: My second question pertains to the Biologics business. How far is it scaling up and at what type of capacity utilization you expected in a year's time?

Jonathan Hunt: As you know, we have been investing and developing a strategy to enter into the biologics manufacturing space for a number of years now. The capex that Chini talked about earlier in Bangalore, the \$ 80 million or so, some of that has gone into building manufacturing capacity in biologics. We have state-of-the-art infrastructure, very sort of modern 2,000 litre scale disposable technologies. But put context around it, we are relatively small and we are a new entrant into this market. So, it is launching that business rather than operating at super scale. What I was trying to indicate in my comments without giving you the specific numbers but directionally we are starting to see good market traction. One of the reasons we made those investments is we believe there is a general shortage around the world of high quality capacity, backed by good capability and we are hopeful that we will see good demand. Little bit early to be giving you forensic detail on it, but I look forward to updating you on that throughout the course of next year, because as we go into the next financial year, it is going to be one of those trends that we as a management team will be putting a little bit more focus on.

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

Surya Patra: Just wanted to have some sense on the Mangalore plant what is likely to commission by end of 2020 what you mentioned. So whether the commercial supply will start immediately after that or you will wait for regulatory approvals to really see commercial benefit out of the new plant?

Jonathan Hunt: I think you are framing the issue exactly right with the question and the latter part of your question is the right way to look at, I think you have identified the right issue. To go back to comments we made over the last two, three years when we talked about Mangalore and the investments we are making into commercial API, fundamental to that strategy and I think it is well understood by our shareholders and by analysts, is that you really have to build the infrastructure, you have to get up and running and you have to get fully qualified and be able to show to clients that the infrastructure is there, have to be able to touch it, feel it, smell it almost for them

to be confident of bringing work there. So, from that point of view, I think the way you frame the second part of your question is right. We will not start to see material revenue coming from that until after we completed construction, until after we completed the regulatory qualification and validation processes and only then we will start to build from that. That said, we always knew that when we made those investments, because you make major investments like moving into commercial API manufacturing, not on a one quarter, two quarters or even yearly timeframe, you look at the life of the asset and you are going to get 10-years, 20-years out of those, it is a long-term strategy. Of course, we will start to recognize revenue sooner than that, but it would not be from day one, there is a qualification period.

Surya Patra: But it is not that you can manufacture the intermediate from the new plant before even the approval of the plant from the regulator. So, are you only focusing to manufacture the final API from the Mangalore plant or even you can think about manufacturing the intermediates out of it?

Jonathan Hunt: Primarily, our strategy is that, it will be a fully built commercial API plant. That is a long-term business case for it and that will be the driver of the material revenue rather than just to sort of startup. I think we will probably do in terms of communication with the analysts and keeping this conversation going, as we get closer to or at the point where we have commissioned the facility, when it is up and built, I think that is the time we will probably spend a little bit more time with you and give the detail on how we think that business will operate. Between now and then, management is already much more focused on the operational building, making sure we are getting it constructed in the right way, will come to the business model and maybe discussion with you on a later date.

Surya Patra: Regards the capitalization of the assets, is it right to believe that the entire \$80 million spent in the Bangalore plant has been capitalized so far?

M.B. Chinappa: Yes, Surya, they are all being capitalized and commissioned.

Surya Patra: Regards to the discovery services front, just wanted to have some sense that we are seeing that there is a kind of decent growth that we are seeing there. So is it because of the new customer addition or something like that or what is driving that and we have seen lot of developments happening on the dedicated center front but the real growth is driven by the discovery services front, so is it the existing customer, new customer or business getting expanded with the existing ones or what is driving there? By now what is the revenue share of that segment if you can share something on that?

Jonathan Hunt: I will give you some qualitative comments about that, try and give you sense of what the key trends I was seeing in those businesses and maybe then I will let Chini to try and frame a little bit about the role of discovery services plays within the company from a financial point of view. Again, your question touched on many of the things I would say. We are continuing to see new client wins. I think in general those are continuation of what is the global trend within the biotechnology but also with the pharmaceutical industry, builds core capabilities of discovery chemistry and discovery biology are things that predominantly western clients are getting ever more comfortable with outsourcing partnering. So there is a good underlying demand trend. Part of the question then is where in the world that does go? I think India is doing well from that point of view but within that, I think Syngene is probably the standout performer and I think that reflects that we built a very differentiated strong set of capabilities. Our chemistry capabilities and the service we offer there I think is good as any you can find anywhere in the world and our Discovery Biology really stands out in the Asian context of being one of the biggest teams and consequently they had a real depth of experience. So the biology is not something that many companies in this part of the world do with the same scale and breadth and depth as we do and our chemistry I think is a match. So, some of it is from new clients. A lot of it is from existing clients that are just accelerating the rate at which they work with us, so its expansion and then the final bit which I think is a leading edge of it is the integration of the two. What we are starting to see is clients what they really want is not just a chemistry service or a biology service but they

want the two to work together, and if you think about the essence of good drug discovery particularly if you want to move quickly you want very little handover between your chemistry and your biology, you want to move seamlessly between those two domains so that you can solve problem quickly. And by doing that under one roof and by doing it with us, we can bring some extra speed benefits to what we are doing with the clients.

Surya Patra: Just two quick questions: What is the utilization of the dedicated centers that we would be having? Secondly, wanted to sense for the first three quarters, what I am seeing is there is a significant 40-50% kind of YoY growth in the material cost. Does that mean share of the manufacturing revenue that is going up meaningfully compared to last year in the current year?

Jonathan Hunt: The second part of the question I am going to leave it to Chini to make the comment on. On the first bit, sort of logically the asset utilization in a dedicated center is by definition 100%, it is an FTE-based model and the client is buying the whole thing. So they are buying the infrastructure, the management, the people, the capability and you are not really measuring it or pricing on the input, you are measuring it on the output. So the utilization is 100% because we build them as big as the client needs to deliver the services that they want. Hopefully that helps you.

M.B. Chinappa: Surya, both parts; one is the mix of the business is - a third of the business is dedicated center, the quarter of a business is represented by discovery services and about 40% of our revenues come from the development services. The material cost, I would say once again not to read too much into the quarterly movement. As I indicated on a full year basis, we expect to land at the same percentage that we have for last year. If this mix changes substantially, then you will have an impact on a full year basis, quarterly because the revenue got pushed into next quarter. So we are having swing in the margin for the material cost percentages, it gets evened out on a full year basis.

Surya Patra: As a percentage to sales, I think that will be evened out, but what I am saying for the first three quarters of the current financial year, the material cost is significantly higher compared to last year. Is it because of the changing revenue mix towards the manufacture?

M.B. Chinappa: Not really, there was some one-off item that hit in the first quarter, if we strip that out of any margin analysis, that is Rs.40 crores additional pass-through, take that off and there have been some movement of some program that are pushed into Q4 and that had a play on Q3 number.

Jonathan Hunt: I think you have given most of the overview there. If you try and reconcile that back in your own modeling, you still struck in a little bit, do feel free to follow up with the Finance, IR team.

Moderator: Thank you. The next question is from the line of Anand Padmanabhan from Renaissance. Please go ahead.

Anand Padmanabhan: Just wanted to get some clarity on your expansion plan. So, once the facilities are complete by end of 2020, how should we look at the operating cost hitting the P&L or what would be incremental operating cost that were currently being capitalized that would hit the P&L and what would be the quantum of that?

Jonathan Hunt: I go back to maybe some of the comments I made earlier. Chini, invite you if you want to make one or two financial dimensions around it. I think the key is in terms of overall expansion plans if you can permit me, I will tweak the question slightly, where we are seeing the most immediate expansion is in Discovery Services business. So it is what we are continuing to see in discovery chemistry and biology, it is lab-based bit. From capex investment point of view, which is I think where you are coming from, we are continuing to invest in building what essentially is a new business and new infrastructure for us in commercial API manufacturing , in Mangalore we have given you a timeline for that in the spirit of the answer I gave earlier. I think as we get closer to completing the build which will be about a year from now, that would be the right time for us to sit down with the investors and

analysts community and talk a bit more around the operational details of how to think about, how to model it, what is the P&L look like. As we are still in the build phase, it is a little bit premature for that. Chini might add to that.

Anand Padmanabhan: But it would be fair to assume that the operating expenses from the facility would hit the P&L first whereas the revenue from those facilities would come in with a lag after you get all the necessary certifications, approvals and everything?

Jonathan Hunt: Yes, I think that is a reasonable way of looking at it.

Anand Padmanabhan: To that extent that was for a short period, there will be negative operating leverage coming out of those facilities?

Jonathan Hunt: Yes, that is inherence in moving into new businesses and building new capacity.

Anand Padmanabhan: What is the kind of visibility that you have in the scale up from your existing dedicated centers?

Jonathan Hunt: In reality, the dedicated discovery centers that we run are disconnected from what we are doing on the commercial API manufacturing, it is a different business.

Anand Padmanabhan: That I totally understand, but this question is not connected with the previous question.

M.B. Chinappa: Anand, we had announced some expansion around the dedicated centers over the last one year. We expect to fully ramp up on those by the end of 2019.

Anand Padmanabhan: Post that ...?

M.B. Chinappa: Yes, existing contract will be fully ramped up.

Anand Padmanabhan: So, incrementally, what are the kind of avenues that are available for growth or apart from the dedicated centers? I would assume that part of those scale up in this year is mainly because of the dedicated centers.

M.B. Chinappa: Anand, growth is all round growth that we are seeing and it comes from both the capabilities and expansion to reach into the market, etc., is altogether driving growth. So, we are seeing growth from existing clients, we are seeing growth coming from new clients, we are seeing facilities ramp up, adding capacities to our current facilities. So it is kind of all-round growth between all the services that we offer and between both existing and new clients.

Anand Padmanabhan: What is the kind of ramp up that one should look at your existing scientists which you are currently having over the next three to four quarters?

M.B. Chinappa: That would be giving guidance into next year; a directional sense as we report a full year number and point towards FY20.

Moderator: Thank you. The next question is from the line of Pradyumna Singhania from Ampersand Capital. Please go ahead.

Pradyumna Singhania: My questions are regarding more forward-looking numbers regarding your operating margins and PAT margins. So, here we can see that in your nine months margin, you have shown 32% and 17% EBITDA and PAT margin respectively and towards Q3 it has been 33% and 18% which is obviously 1% increase in the better number. So historical trends are showing you guys were moving up like you had 34, 35, 38% margin and now you are like going down. Obviously, you mentioned something about higher material cost coming in over there. So, what I was getting is when do you think your margins are going to start improving and going back up track?

Jonathan Hunt: Good question. Of course, from your point of view, you probably got undisclosed assumption on what back on track means for you. Let me go back to

some other comments we make historically. You are right, the EBITDA margin did start to drift up into the mid-30s and we spent quite a lot of time in that period explaining why. If you take a longer historical view actually you will see that this business tends to operate 30-33% EBITDA range and the PAT level of high teens to low-20s. Those actually by the industry we are in are certainly upper quartile margin performances compared to our global peer group. So if you look at US companies, European companies, Asian companies which offer similar level of service to our similar business model, then we are certainly above average for the industry peer group, upper quartile, maybe a little bit higher in the range. We are operating in that corridor that I just described. Broadly 30-33% is the EBITDA level, high teens to low-20 is PAT level. We actually drifted up out of the top of that range on the EBITDA level and at the PAT. Part of that of course with the interest that we were earning from the US\$200 million funding that we have raised which was to drive the long-term capital investment plan and of course over a number of years now some of that is being sitting in the bank delivering now rather nice interest cost arbitrage which has flown to the P&L. But again as a non-operational item from my point of view, we are fundamentally a science service business discovery services, which is how we create value for our shareholders, creating a financial benefit is a nice side effect of our capex plan but it is not core to our business. So where I am leading you with that point is actually where our margins are today look to be absolutely in the strategic range we would be comfortable with.

Pradyumna Singhania: Also, you said that at the end of December 2018, you were at \$135 million of the \$200 million of the capex if I am right and you said that you should be using the remaining \$65 million throughout the end of this year if I am right?

M.B. Chinappa: Thereabouts. Calendar year 2019.

Jonathan Hunt: From that you can probably reverse engineer the interest income benefit we are getting and how that declines and within that you can take a sense of what the operating leverage must be to replace any of that loss if we are going to stay in the EBITDA and PAT range. The only other factor I drove you to which again is

something structural. I think it is well understood by the street which is many of our facilities have sat within the SEZ structure and therefore had a tax holiday out of the Indian government, bit-by-bit those are coming out of those building-by-building and then from that point of view over the next plan period we have an unwinding of that SEZ benefit, quarter by quarter and that is a little bit of headwind at the PAT level.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.

Chirag Dagli: Chini, in your opening comments, you mentioned 6% benefit of the currency?

M.B. Chinappa: That is right, Chirag, yes.

Chirag Dagli: So but the average rate is about 10%, Chini, 65 versus 72 YoY. I am just wondering where is the difference?

M.B. Chinappa: We are taking the exact rate which we recorded. This is our realized rate. The rates at which we invoiced, they are prevailing exchange rate on the date of invoice. Weighted average of that is coming to 69.8 or thereabout.

Chirag Dagli: What does this whole INR depreciation mean for our margins – which part of the business do we have to pass it on if you can give us some clarity there?

M.B. Chinappa: There is no passing on this benefit. If you look at this whole business on operating basis, looking at inflation, looking at currency movement, etc., and then look through our pricing in that regard. Pricing is basically to get market rate but the currency depreciation and our hedging policy is somewhere our hedge against inflation in India.

Chirag Dagli: So this whole increase of 65 last year on an average to 70 levels, this does not necessarily mean a margin expansion for us?

M.B. Chinappa: Does not mean and just to correct, while the rupee traded at the 65 range last year we did realize 67 to the dollar because of the hedging and then this year we are realizing 69 to the dollar and next year we are expecting higher rate. So, that is how it kind of evens out.

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

Harit Ahmed: I missed the CAPEX number for the year. Can you just repeat that how much has been the CAPEX spend in FY19?

M.B. Chinappa: Cash outflow has been Rs. 438 Crores.

Harit Ahmed: CWIP that I see of Rs.278 Crores in the December balance sheet, this would all be sitting in the Mangalore facility or other facilities where this is to perceive?

M.B. Chinappa: Most of it is Mangalore of course. We do have some other ongoing expansion including the rebuild of the S2, etc., which is part of this CWIP number.

Harit Ahmed: This line other non-current liabilities in the balance sheet, I understand it is mostly deferred revenues that increased versus March quite sharply. So, just trying to understand if this deferred revenue component in the revenues for the quarter?

M.B. Chinappa: The financials represent the assets that we have invested on behalf of our clients and there is a matching liability on the other side.

Harit Ahmed: This would be booked as part of the other operating income in the P&L?

M.B. Chinappa: Yes, over a period of time it will get reversed out through operating income and depreciation.

Harit Ahmed: Is that a big contributor to the revenue for the quarter?

M.B. Chinappa: Not at all. It was invested towards the end of December and it will play out over the year.

Moderator: Thank you. Due to time constraints, that was the last question. I now hand the conference over to Mr. 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 evening.

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