

Syngene International's Q3 FY2021 Conference Call

January 21, 2020

Key Participants from Syngene International

- Mr. Jonathan Hunt: Managing Director and Chief Executive Officer
- Mr. Sibaji Biswas: Chief Financial Officer
- Dr. Mahesh Bhalgat: Chief Operating Officer

Moderator:

Ladies and gentlemen, good day and welcome to Syngene International's Third Quarter FY2021 Financial Results 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 call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Divya Dhawan from EY. Thank you and over to you ma'am.

Divya Dhawan: Thank you, Raymond and good afternoon to everyone. Thank you for joining us on this call to discuss Syngene's Third Quarter and Nine Months FY'2021 Financial and Business Performance.

We have on this call today, Mr. Jonathan Hunt -- Syngene's Managing Director and Chief Executive Officer; Mr. Sibaji Biswas -- Chief Financial Officer and Dr. Mahesh Bhalgat -- Chief Operating Officer. Other members

of the Executive Team are also present on the call.

After the opening remarks, Jonathan, Sibaji and the rest of the team will be happy to answer any questions you may have.

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 the business. The Safe Harbor clause indicated in the Investor Presentation also applies to this conference call. The replay of this call will be available for the next few days after this call has ended, followed by the transcript. With this, I would now handover to Mr. Jonathan Hunt for his opening remarks. Over to you, sir.

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Jonathan Hunt: Good afternoon and thank you for joining us on this earnings call to discuss Syngene's Q3 performance.

Let me start with a comment on COVID-19 and how we have been managing our business in what are still uncertain times. At a Company level, we are coping well and have managed to maintain near normal levels of operations throughout the quarter, while keeping our staff safe and healthy.

India, in general, seems to be faring well compared to many countries around

the world and to date we have not seen here, in India, a meaningful “second wave”. In contrast, many of our key client locations, such as the US and Europe, are clearly experiencing a strong “second wave” and in response to this are going back into various stages of lockdown. These countries are facing both a recurrence of fresh cases, as well as the emergence of a number of new strains of the COVID-19 virus. The positive news is that we are also seeing these countries commence large scale public vaccination programs and hope these deliver as planned and the spread of the virus is contained.

Taken together, I think we can be hopeful that widespread vaccination will curb the disease. But the short-term impact on client demand in the coming quarter, as a result of further lockdowns and global travel restrictions, is uncertain. Consequently, I think it is prudent to take each quarter as it comes. That said, I expect to be in a better position to guide for the year ahead at the full year results in April. By then, hopefully, the peak of the second wave in the US and Europe will have passed and the world will have made progress on the roll out of the vaccine.

Closer to home, in Bengaluru, there is better news as the spread and intensity of the COVID-19 virus appears to be receding. We are witnessing a gradual reopening of businesses and return to more normalized day-to-day living as India also embarks on a major vaccination drive. As you are aware,

right from the beginning, we took necessary steps to ensure that our employees are safe at work and we continue to maintain the same level of protocols at our campuses. Reflecting on the last 9 months, we feel satisfied that Syngene not only handled the operational challenges effectively but in the process built a stronger and a more resilient organization.

With that, let me now quickly give an overview of the quarter's financial performance before moving on to the operational highlights.

Financial overview

First, focusing on the financials, 3rd quarter performance is in line with our full-year guidance, with revenue from operations growing 13% over the corresponding period last year.

Over the past few months, we have continued to implement operational excellence initiatives using productivity-enhancing tools like Lean, Six Sigma, and Kaizens, which help us continuously improve our operational efficiency. This, together with good cost control measures, helped us sustain our profitability with EBITDA and PAT growing 11% respectively.

I will let Sibaji give more details on the quarter's financials in a moment. Let me move on to the operational highlights.

Operational highlights

As reported in the press release, third quarter performance was driven by overall strong performance from all divisions.

Integrated drug discovery projects are a strategic focus area for Syngene. Our ability to seamlessly integrate every stage of the discovery, development and manufacturing value chain saves time and creates significant value for clients. Some view us as an extension of their internal capabilities and resources and others as an alternative to an in-house facility. These partnerships are characterized by a shared objective which is to ensure that products reach the people who need them as quickly as possible through the optimization of every stage of research, development and preparation for regulatory approval.

In line with this, earlier in the quarter, we announced a collaboration with Deerfield Discovery and Development Corporation - or 3DC - the drug discovery and development subsidiary of Deerfield Management Company. The collaboration brings together the expertise of 3DC in identifying potential novel biological targets, and Syngene's integrated drug discovery capability, to conduct target validation, therapeutic discovery, and preclinical development, for both small and large molecules. To date, 3DC has awarded us four antibody IDD projects in the oncology and autoimmune segments to be executed during FY22.

In past quarters, we have talked to you about our online events and our increasing use of social media to engage clients. We have also developed a virtual exhibition booth to allow us to have a presence at the major congresses around the world – all taking place on-line at this time. We are also investing in building our global sales force to stay closer to our customers. This will mean that we can maintain close relationships with our existing customers, as well as introducing the company to new customers, at a time when international travel may be constrained for some time to come especially in our key markets such as the US and Europe.

During the quarter, our scientists continued to contribute their expertise in the fight against the COVID-19 pandemic. We have commissioned a new RT-PCR testing facility which is approved by NABL and ICMR. As you all know, Syngene has been supporting the state government in conducting RT-PCR tests and so far, we have tested more than 100,000 samples. Our scientists are also actively involved in supporting our clients in their COVID-19 research projects.

Finally, the expansion of the Hyderabad research facility with additional laboratory capacity reflects the growing business potential for our services. We are currently close to 175 scientists operating from this facility, and with this expansion, we will add an additional 90 scientists.

So, to sum up, I think the third quarter was a good quarter overall. We have good visibility on the final quarter and expect to end the year in line with our guidance. The projects coming in from the 3DC collaboration are adding to our IDD portfolio.

Let me now hand over to Sibaji to share more details on the quarter's financials.

Thank you.

Sibaji Biswas: Thanks, Jonathan, and a very good afternoon to you all. I am happy to take you through our results for the third quarter and nine months ended 31st December 2020.

As Jonathan mentioned, we got into the year with the first quarter witnessing the full impact of the pandemic. We were hoping that the pandemic intensity would moderate as the year progressed. But looking at where we are today, the pandemic is still having a significant impact on our key client locations and countries are moving to various stages of lockdown. With the prospects of vaccination programs on the horizon, we are seeing a light at the end of the tunnel, but we are certainly not there yet.

Syngene responded well to the pandemic and has been operating at near normal levels since mid-May 2020.

With this background, let me now run you through the performance for the third quarter first and then I will follow up with the 9 months of the year.

The performance for the quarter has been good and we saw improved growth through the quarter which is in line with our stated guidance. Revenue from Operations was at Rs.585 crores for the quarter, which is up 13% over the same period last year and is an increase of 12% over Quarter 2 of the current year. This reflects a strong recovery in this quarter and demonstrate the inherent strength in our business. The performance this quarter is driven by overall good performance across the business as we successfully delivered client projects despite pandemic intensity increasing in certain client markets.

Margins for the quarter remained steady at 32%. We have observed 150 basis points improvement in direct costs with raw materials and power being at 27% of the revenue now vs 28.5% a year ago. The improvement is partly on account of change in mix of our business and also due to the continued improvement in operating effectiveness in both areas of raw materials and power cost. You may remember from our commentary in the last quarter that we have moved to renewable sources of power for our operations in the main campus in Bangalore. This gives us better pricing, more certainty of supply and helps us drive not only cost control but also sustainability.

Let me now take a moment to explain the movement in other cost lines in the P&L. During the quarter, staff costs increased by 16% to Rs.176 crores as compared to Rs.152 crores in the same period last year. The increase in headcount in our existing and new facilities that went live in the last twelve months has resulted in large part of this increase. The rest of the increase came from the amortization impact of the new ESOP plan rolled out on 1st June 2020 as previously explained.

Turning now to other expenses, which comprises of selling expenses, IT cost and other general overheads, they are up 13% y-o-y to Rs 79 crores compared to the same period last year. The rise in these expenses is primarily attributed to new ways of doing business during the COVID-19 times and an increase in costs associated with maintaining necessary health and safety protocols. This quarter also saw us complete our Quality digitization program and move to a completely online process from a paper-based system. This will strengthen the Quality function and will make a meaningful contribution to our goal of becoming Anytime Audit Ready.

EBITDA was at Rs.193 crores and the margin for the quarter was maintained at 32% which is same as last year. Interest income was down this quarter to Rs 17 crore vs Rs 20 crore in the same period last year. Overall, we have seen softening of interest rates in the market and this is reflected in lower interest receipts.

Depreciation stands at Rs.70 crores which is a 22% increase from Rs.57 crores in the same period last year.

The increase on a year on year basis is mainly owing to the investments in the Hyderabad facility, expansion at our main Bangalore campus and the commencement of the Mangalore commercial API plant at the end of the last financial year. During the quarter we have expanded our Hyderabad facility by adding 50% more space to the current facility over there. The Capex for this expansion has been fully booked and is reflected in the reported Capex figures.

Moving to the impact of our currency hedges, the Company recorded an exchange gain of Rs 8 crore in the quarter vs a gain of Rs 10 crore last year. This reflects the difference between forward rates versus the prevailing spot rate. The hedge rate was above Rs.74/USD as against the spot rate of Rs.73.5/USD during the quarter.

The effective tax rate decreased marginally this quarter to 12.3% compared to 13.9% in the same period last year. The decline in the effective tax rate is predominantly due to the incremental depreciation impact in the tax books coming from the new units that have gone live; operating losses in the newly set up commercial API plant at Mangalore and decline in the interest income during the period. A small part of the reduction also came from reversal of a tax provision for earlier years, like the one explained in the

previous quarter.

Profit after tax was up 11% to Rs.102 crores as compared to Rs.92 crores in the same period last year reflecting an overall strong performance for the quarter.

Moving now to the 9-month results, revenue from operations for the first nine months of the year was at Rs 1,526 crores, up 9% against the 9 months of last year. I would like to point out that Syngene was a beneficiary of the Service Export Incentive Scheme (SEIS) till last year. This benefit is no longer available to us from the current financial year. Adjusted for this, our underlying Revenue from Operations grew around 12% Y-o-Y in the first nine months. In a challenging year, where we saw a temporary suspension of operations in the early months of the year and almost complete suspension of business travel, we are happy to deliver an underlying growth of 12% in the business for the first nine months.

EBITDA for the nine months is up 6% to Rs 503 crores, a reflection of the improved operating performance in the business. If we exclude other income, our business EBITDA has improved 10% year on year as we made significant changes to our operating models and kept costs down, while benefiting from the increased scale of operations.

On a 9-month basis, the increased gross block value of our fixed assets has resulted in close to 30% increase in depreciation expenses to Rs 205 crores vs Rs 157 crores in the same period last year.

Foreign exchange gain for the 9 months was at Rs 12 crores vs Rs15 crores last year. Overall, for the first 9 months, our profit after tax, before exceptional gains was at Rs 244crores which is almost in line with the profit of Rs 246crores in the last year.

Let us now move to some of the other items such as capex and cash flow. Our investments for the first 9 months were at US\$53mn as part of our ongoing capex program. Of this, US\$8mn pertains to the commercial API manufacturing facility, US\$16mn was invested in Discovery Services, US\$15mn was invested in Dedicated centres, US\$7mn in the Biologics manufacturing facility and the balance of US\$7mn in Development Services and other assets. With this capital expenditure, our fixed assets currently stand at US\$503mn. While our guidance of spending US\$550million by end of March 2021 still holds, from the point of execution and therefore accrual in the books of accounts, some part of this will spill over to the next year. It is important to note that our decision to operate multiple shifts in our business means that we have released dormant capacity which gives us headroom to absorb additional business within the existing infrastructure. Hence, this slight delay in capex execution is not likely to have any impact on our ability to support growth of our business.

Although we successfully deployed digital tools to improve our sales and commercial function, the nature of our business is such that there is a real need to be physically connected to our clients. The absence of business travel has been a challenge throughout the year and while the underlying business fundamentals remain extremely strong, the second spike in Covid-19 cases in our key markets of US and Europe has increased the level of uncertainty. We believe; however, this is a temporary situation and as the vaccination program gets widely rolled out, we will be able to get back to our accustomed level of commercial intensity. In this context, with 9 months of performance under our belt, subject to the pandemic intensity receding in our key markets, we expect to deliver the previous guidance provided to you.

I would now like to reflect on the partnership with Deerfield Discovery and Development, also known as 3DC, a premier venture capital funding organization backing innovator companies in the life science space. This commercial partnership will allow us to fully utilize our integrated drug discovery platform and, while I do not advise you to see this as an inflection point from the purpose of your financial model, it is important from the point of evolution of our drug discovery platform. This 3DC partnership puts us at the center of an arrangement between some of the world's best academic institutions, drug innovators and venture capital funds and hence its significance.

In previous calls we have discussed the impact of COVID-19 initiatives. To avoid any confusion, I would like to underline that our primary focus has been to help the scientific community battle this pandemic. While the revenues from these initiatives are difficult to predict, we do not expect any of them to fundamentally change the revenue and profit expectations for the year.

Before I conclude, let me summarize the results for the company for this quarter.

We are tracking in line with our guidance provided at the beginning of the year. Execution factors are in sharp focus in the fourth quarter under the shadow of the continuing pandemic as some of our key markets got into a “second wave”. The commencement of large-scale vaccination programs in these markets give us the confidence that the challenges are temporary, and normalcy will return soon. We do expect to deliver on PAT guidance, and we remain cautiously optimistic about delivering the guidance on revenue growth.

At present, we are operating at normal levels on all campuses and the overall cost structure is in good shape with clear signs of efficiencies visible in many lines despite the additional expenditures related to functioning in times of pandemic.

As an organization, we continue to make investments across our business which also include transformative projects in the areas of digitization, automation and process improvements, the benefits of these should accrue in the coming years.

Our liquidity position is strong, and our balance sheet continues to be healthy at the end of the period.

With this, I will complete my commentary on the results. We can now open the floor for questions.

Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Alankar Garude from Macquarie. Please go ahead.

Alankar Garude: Sir my first question is, is there any difference in the nature of conversations you are having with your clients in March, April versus now?

I mean was there any urgency then versus what the situation is now? Also, if you could highlight any structural changes in how clients are thinking about outsourcing especially to Indian companies?

Jonathan Hunt: Yes, good question. I mean there's an obvious one. The conversations right at the beginning of last year would have been face-to-face and probably in

their offices or in-house and most of the last year we've all just become virtual and ZOOM-enabled. That's a sort of superficial answer to how things have changed. The nature of what we're doing hasn't really changed. I think one of the things that clients have really appreciated, and I think it's true particularly with Syngene. We've operated at near 100%, if not 100% normal operations for the second quarter, the third quarter. So, we are there, and we can get work done and deliver for them. In many cases, I think this is something that will sort of play out and be more obvious in hindsight. Our operations in India have been less impacted by COVID than most of our clients have been in the west, in Europe and the US. So, we are now at a point where if we are talking to clients, we are operating at normal levels in the office, while many of them are still working from home or in lockdowns, so it's becoming a more amplified problem at the client end. Now in the context of outsourcing, that's a reinforcement of the resilience you can put into your operating models if you are a client by having outsourcing plus having your own facilities and doing it on a global basis. If anything those companies operations heavily centered on the US and heavily centered on Europe have had a more challenging year than those that have had the luxury of having operations all the way around the world including in India and have had the ability to dial up their operations in Asia whether it be in China or India to offset some of the limitations operationally that they're facing in the west. So, net-net, I think this idea that the intrinsic lesson of COVID is don't do things globally, don't outsource, it's less resilient. Actually, the lesson is

probably the other way around; organizations with sophisticated, globalized, well-connected supply chains and partnerships that have thought of a resilience, have probably done better.

Alankar Garude: That's helpful. So, maybe a small follow-up to that would be, so do you expect this change to be structural, do you expect this to persist even after COVID say maybe one, two years down the line or there is a scope that clients are looking at this purely from a near-term perspective?

Jonathan Hunt: No, I think it's longer term. I think the fact that the whole world's done an experiment in work from home, digital working and found it to be pretty effective, it may be a bit frustrating at times and all of us have developed to sort of eight hours on a ZOOM's call can give you a headache. But I think it's proven to be particularly effective. So, I think that shrinks the world, not makes it bigger, because we're all that much more connected. The other bit that's maybe a little bit cultural and I don't know whether you see it in your day-to-day work. People are a little bit more accessible, a little bit more informal. I think we're finding it in all aspects of our business, you can pick up the phone and talk to people, whereas previously we would have probably been battling with diaries and seeing when can we find a spot where we can both meet. So that you know there's some positives coming out of this. Again I think it's about thinking smartly about resilience and I know for many of our clients, as we come to the end of the year, they're looking back and saying you delivered for us, even in a pandemic as a partner

we were back at work operating at 100% and delivering for them, and at times we were delivering when their local lockdown situation was making it much more difficult for them to get into the office or into the lab. So, I think that's been a positive experience for many people.

Alankar Garude: My second question is to Sibaji sir. Can you quantify the cost pertaining to the Mangalore facility that is currently being reflected in the third quarter? Also, if you could tell us this would be approximately what percentage of the total OPEX for Mangalore once the plant is fully operational?

Sibaji Biswas: Yes, so I'll repeat what I said in the last call; Mangalore OPEX is diluting our margin by close to 2%, that at the OPEX level and the depreciation, you can calculate because we have spent some \$75 million and we are amortizing it over a period of 18-years.

Alankar Garude: My question is now the cost which is being attributed to Mangalore as of the third quarter, approximately what it would be as a percentage of the total OPEX for Mangalore once the plant is completely operational, so essentially what part of the Mangalore cost is being reflected in the P&L as of now?

Sibaji Biswas: If you are saying what percentage of our OPEX would be from Mangalore, it will be close to 3% when it is fully operational.

Moderator: Thank you. The next question is from the line of Tarang from Old Bridge Capital. Please go ahead.

Tarang: Just to get a better sense of what led the 3DC to choose Syngene to collaborate with? And in terms of competitive intensity, is Syngene the only partner that 3DC has for its integrated drug discovery projects and how does it really benefit Syngene qualitatively in establishing credentials in the space maybe from a medium to long-term perspective getting more business?

Jonathan Hunt: A good set of questions. Really over the last few years you've seen us continue to deliver what I think of say is functional services, almost sort of point and shoot, the clients are very clear on what they want, we're very good at delivering it and we deliver components of the discovery sort of value chain, they then reintegrate back into all of the other work they do. So we maybe do some standalone chemistry or maybe do some biology, but we deliver those and then it's the client takes that, data that generated, they synthesize it, they think it through, they make decisions on it and they take that back into their own sort of research and development processes. That's the core of what companies like ours have always done and it's the core of the business. What's becoming alongside that, so it's not an either/ or, is the opportunity for us to drive more of the science, do more of the ideation, do more of the added value, interpretation, think through the scientific problems and almost get paid for suggesting a solution rather than executing a solution. And that's really what the integrated drug discovery platform does. It allows us essentially to bring together all of the disparate bits that we have in the company, but bring them together in a way that looks a little

bit like a biotech company that works on behalf of other clients who own the IP and sort of come up with the original sort of scientific questions or challenges, but we do in this model increasingly more of that innovative ideation piece alongside delivering all of the work and the experimental data. So, for me it's a good indicator of the maturing and the sophistication, of the type of science that we're capable of doing at Syngene. So to your question of why would 3DC choose us, well, because we're pretty good, we've got a good track record, we've demonstrated over a number of years, with a number of other clients that the science that we can do within Syngene is indistinguishable and every bit as good as they can do in their own labs in the west or they could do with other collaborative partners. So, we're scientifically capable. I think we also have some advantages around scale so we can flex quickly and reach a scale that a few other companies can and particularly a few startup companies can do. So, we can move from north of 50 to 100 to 200 scientists on a problem much quicker than many of our partners can and that's important to them. And alongside scale I think we've also got speed and cost efficiency. So, we can make a dollar go further and faster than some of our clients can in their own laboratories or with other partnerships. Putting all these things together and you've got sort of the recipe that makes sense for a company like 3DC to partner with us. They're free to deal with a whole bunch of other partners. In fact, part of this model is that they will cast their net very-very wide in academic relationships and in finding that very-very early stage good science. I think if the model is

successful, you'll find us positioned as their predominant and largest operational partner. So, once we move things into formal projects then we're very much set up to be central to that and that's the spirit of the collaboration. But it's one of what I hope to be many. So, we point it out not because I think it's going to be easy for you to put into your excel model and it won't be a hockey stick in next quarter and the quarter after that's revenue. It'll just be baked into the performance of our discovery services division. But it is significant, it's a real symbol of us moving up the value chain and with what is a very premier partner so that that alone I think will help over the coming years and I would say it's years, not weeks and months will open doors for many other people who will see. If you're working with organizations like Deerfield and then traditionally companies like Amgen and BMS and some of our other strategic partners, they reflect very well on the capabilities that we must have and that opens doors. So, a bit of a long answer but I think you wanted more of a qualitative description than a specific set of bullet points.

Tarang:

If I look back maybe the last three years, I understand why it's happened till now. So, if I look at the last three years the employee cost, right, your quarterly run rate has gone up from anywhere between 90 to 95 crores to anywhere between 160 to 165 crores and its visible in terms of your scientists and so on and so forth. But how should we see this going forward now, and consequently how should we see the revenues coming in from this

because we haven't seen a similar trajectory on the top line?

Jonathan Hunt: Well, some of that's about building capability to enable future growth. Again, I think our business has grown over quite long cycles, it's not a quarter-to-quarter sprint. So, if we're building these deep-seated capabilities, you can invest for many, many quarters before you start to see a return on that. But again, on the people cost bit there's a couple of things that's going there. In one element of our business particularly in those where we've got FTE contracts, hiring new people is actually the unit of growth. So long may that continue, and I hope that our headcount numbers continue to grow as they have done in recent years because they're a direct revenue generator in terms of how that business model works. The thing I was just talking about with integrated drug discovery, that sort of platform and then also into our development and manufacturing. There it's more about maturing capability, bringing in people with more seasoned industry veterans, bringing in people with real innovative skills. So, it's smaller numbers of people but they are sort of in some ways a more selective sort of resource.

But again, I don't really see people as a cost, I see them as an asset, we're a science innovation business, we're fundamentally based on intellectual capital and therefore investing in people is the first and probably primary investment that we make. I don't necessarily see it as a cost line but as an asset development.

Tarang: Should we see this trend continue the way it has in the past?

Jonathan Hunt: Yes, well, what I'm sort of hinting at is that- I hope so, on the basis that it's a unit of growth. Asking for a guidance; somebody asked a question; they do every third quarter. So, the answer to the question which you didn't ask but implied is, what's the outlook for the next financial year. We'll cover that as we do every year in April and our full year results. It's a little bit too early in the year for me to be giving you guidance in terms of revenue, costs, and other things for next year. And then I also think given that we're in the pandemic situation, it's great that the vaccines are starting to roll out, but that's an enormous global vaccination program, it'll take I would imagine most of the coming year for it to get to scale on a global basis. I think it would be very wise to look at these things quarter-by-quarter and that was partly what I was alluding to in my introductory comments. Fourth quarter for us, we've got really very good visibility, we've got to execute, we're on track to hit our guidance pretty much for the year. For next year I'll give you guidance in April. But we really need to see what the impact from this second wave in Europe and the US is. And that's not flagging up warning, it's just saying it's clearly unknowable by anybody at the moment of what those implications are.

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

Charulata Gaidhani: My question pertains to the order book currently. How do you see the order book moving over the next four quarters?

Jonathan Hunt: I think I just covered that in the last question which is just another form of what's the financial guidance for the year ahead. I'm very happy to talk to you about that in April. In general, I think there's good demand in the marketplace across all of the sort of divisional areas that we work in, whether it's discovery services, development manufacturing or the dedicated centers. The only one that I think if you read some of the big pharma companies' statements, there's a little bit of softness in the clinical trials starting bit. Now that's not a big part of our business, we're not a clinical CRO, but if you think about it most of the world's hospitals are running over a 100% capacity coping with COVID-19. So there's a general slowness around the whole of the industry globally on starting of new clinical trial. So any businesses that are linked to that may have a bit of a slower start to the year but then I suspect quite a strong catch up as we come out of COVID-19 towards the latter part of this calendar year and things start to normalize if that's how it plays out.

So, I think it probably normalizes over the year ahead, but it might be a little bit slow followed by quite an accelerated ramp up later. Our only exposure to that, as I said, it's not massive, but a little bit in our clinical stage manufacturing services that sit within our development business. Beyond that I think it's too soon to call anything out. Happy to talk to you more at

the full year results in April.

Charulata Gaidhani: My second question pertains to BMS. BMS has got quite a few approvals over the last three to four months. Do you see any part of that business coming into Syngene?

Jonathan Hunt: When you say approvals, are you talking about new product approvals?

Charulata Gaidhani: Yes.

Jonathan Hunt: If you think about it, the relationship we have with BMS in time temporally predates new product approvals by about eight to ten years. The work we do with BMS is a research discovery relationship. We're working on the science today that will probably become new product approvals in about eight years' time. So, it's a bit like catching starlight; starlight you see today left the sun some years ago. So, from a research point of view, what we do today will shape that same conversation six, seven, eight, nine years from now. Hopefully that makes sense. Yes, BMS seem to be doing well and their merger integration seems to be going well. Of course, I'm hopeful that we'll see some opportunity to serve that expanded organization better in the future.

Moderator: Thank you. The next question is from the line of Ankush Agrawal from Stallion Asset Management. Please go ahead.

Ankush Agrawal: Jonathan, my question is on the CMO piece of the business. Based on some of the comments that you have made in the previous few quarters, I get a sense that for us the CRO and CMO business largely would be independent of each other. One of the comments that you have made earlier was that on your minority of a CMO business will originate from our CRO project. But given that we have a large CRO business and in the trans business the research partner is naturally poised to be the commercial partner. Shouldn't it be that our CRO project become the pipeline for our CMO business? Similarly, in case of one of the molecules that helped your molecule that went into phase-III last quarter. At that time also, you made a comment that they had not yet decided on the commercial partner. So, can you help me understand better what am I missing over here?

Jonathan Hunt: I think actually your characterization is fine. I think it's not the connectedness that necessarily is misunderstood. It's just the relative size and awful lot of what we do on the discovery side. We discover molecules for many of those partners. Those molecules go back into their own development and manufacturing organizations. If you think somebody like BMS, a large proportion, they have a very large global manufacturing organization as well as CMO partners. And therefore, a lot of the innovation that we've done over the last decade or more with them has gone into that construct. It's not a one-for-one. Every time we do some innovative research work that it automatically will flow through. Very happy when we do see that and I do think that will be a growing part of our business. The only thing what

I've tried to temper is your modeling expectations as a group, this is with the analyst community. And I hope I've been consistently clear. I'm happy to own the asset in so much as the Mangalore facility. Those plants have whatever 20, 30-year life cycles. That's the time horizon we will be creating value. I don't expect to see hockey sticks quarter-on-quarter starting from now. I think it's a gradual build and try as I might, I'm not sure if we've managed to deliver that thinking through to the analyst community.

Ankush Agrawal: So, would it be a fair understanding that going forward the kind of project that Syngene might receive would be more of an integrated project wherein the molecule might flow from the development to the commercial manufacturing because now we have the commercial manufacturing piece as well?

Jonathan Hunt: Yes, we would love to see that and that is part of the strategy, but over the startup period of that plan which sort of starts really from the new financial year and runs over the next three, four, five years, I'm very happy to also take standalone work.

Ankush Agrawal: My second question was if you can give some color on the biologics business like how is it progressing? Do we currently have some clinical molecules that are doing some clinical manufacturing, and do we have commercial manufacturing capabilities on the biologics side or we are looking into that?

Jonathan Hunt: Yes, we deal on the biologics. Again, it depends what your reference point is. If you're looking at businesses like Lancer or Samsung which are absolute giants in terms of their global capacity, then we are a new entrant and at a very modest scale in comparison but there is a healthy marketplace for agile, modestly scaled, very competent biologics manufacturers. The scale that we've got, sits, it spans, it's the right size for clinical biologics manufacturing. So the manufacturing that supports clinical trials and there your customer would be the research and development organizations of a big pharma or a big biotech. And that same scale also is relevant at the smaller scale of commercial manufacturing which would be relevant to the manufacturing organizations and we span that. But we're a relatively new entrant and we're at relatively modest scale. That's all fine and I'm unapologetic about that. It's a business that absolutely has relevant capabilities of clients. It's progressing. I'm always going to say, I don't think you'll ever hear a CEO say that they wouldn't like to see more growth and faster growth, but we are progressing on that strategy.

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

Prakash: The question is on the growth that we have seen during the quarter. So what would be the growth in terms of constant currency? And given the fact that we had put in \$100 million last year and about \$50 million this year, so has the last year's \$100 million start generating revenues, we started to see

order flow or it takes more time to build in and we should look at year after, that's my question.?

Sibaji Biswas: Thanks, Prakash for asking this question. So, the growth at constant currency would be tad above 10%, so the reported growth is 13%. Coming to your other question on the CAPEX investments, if you understand the \$100 million of last year, most of that money actually went towards creating our Mangalore plant which is under as you know qualification validation and we'll start to see some traction in revenues only from the coming year. Apart from that whatever money that we're investing in the research side of the business and in the biologics side of the business, they are showing very good returns.

Prakash: So my understanding is of the \$100 million you spent last year, \$75 million was in the CRO, discovery development and \$25 million was for Mangalore in fiscal '20.

Sibaji Biswas: I think it is not that, so we can connect offline, but it is much more than \$25 million spent in the last year, most of the \$75 million of Mangalore was actually spent last year.

Prakash: So the benefits of the CAPEX last year since Mangalore you are saying will be commercialized from fiscal '22, that is what we will see now, right?

Sibaji Biswas: Yes, over a period of next three to five years because this is a long duration

project and this will have a gestation period which is much longer than in our research business. This investment we firmly believe has very strong return credentials, but it is just a different business from our research business, so it will not generate overnight or over a only one year return, it will take few years, so over a period of three to five years you will see strong return on capital employed in that investment.

Jonathan Hunt: Just to think about it, in terms of a picture in your mind, much of the development services business and manufacturing, they're essentially manufacturing type businesses, so you build some capacity, you build some infrastructure and you build what you think you're going to need at peak and then you grow into it. So, it's a classic sort of manufacturing way of modeling. The discovery services business tends to be and if you think about the story over the last year it's about this time last year we were opening for the first time our new campus in Hyderabad. During the year, we've told you about one and now a third, one, two and three expansions of that site, each one of those modular builds, building a new building online, opening up a new floor in a building, adding new hoods. It's a sort of linear one-for-one growth and it's an indicator of revenue. So, when we say we've added 175 people, that's 175 scientists all of whom are generating revenue instantly. Does that help in terms of a bit of a color between the discovery services business?

Prakash: Yes, I understand. Discovery is much faster to start operations and yield and

development and manufacturing takes time. So just the last follow-up is, would it require inspection by other regulatory bodies or you would start seeing at least some production to start with in fiscal '22 for the manufacturing site?

Jonathan Hunt: No, I think regulatory inspections as we flagged up repeatedly over the years are a key enabler and therefore on the critical path. We need to build that track record for the plan. So the first FDA inspection, the first EMEA inspection, the first Japanese inspection are all nodal points along the way and they can only be triggered by client work. So that's always one of the inherent processes you have to go through when you open up a completely new site. But I think that's well understood by the investor and the analyst community. And it's one of the reasons why over the last two years I've repeatedly encouraged you to model a very-very phased gradual ramp up from that plant linked to those sorts of the achievement of those sorts of milestones.

Moderator: Thank you. We take the last question from the line of Shrikant Akolkar from Ashika Stock Broking. Please go ahead.

Shrikant Akolkar: I would like to know if we have booked any revenue from Remdesivir or ELISA antibody testing kits during the quarter?

Jonathan Hunt: Yes, we have but I would put a context around it. The motivation for playing a role, taking part in COVID-19 is because I think it's the right thing to do those that have got scientific capability in a pandemic need to come to the front and really contribute in the way they can. It was never done to be a core business driver nor do I have any expectations that it's a hockey stick driver of valuation or revenues, It's just us doing what I think is the right thing to do which is helping the world respond to a pandemic. So hopefully that gives you the right context about how to think about it. I don't think it merits a line item in your modeling spreadsheet.

Moderator: Thank you very much. We'll take that as the last question. I would now like to hand the conference back to Ms. Divya Dhawan for closing comments.

Divya Dhawan: Thank you everybody for your time. If there are any further questions, we would be happy to get in touch and answer them. Thank you all once again and we look forward on engaging with you as we continue our progress. You may now disconnect your lines.

Moderator: Thank you very much. On behalf of Syngene International Limited, that concludes the conference. Thank you for joining us, ladies, and gentlemen. You may now disconnect your lines.

About Syngene

Syngene International Ltd. (BSE: 539268, NSE: SYNGENE, ISIN: INE398R01022), is an integrated research, development and manufacturing services company serving the global pharmaceutical, biotechnology, nutrition, animal health, consumer goods and specialty chemical sectors. Syngene's 4200 scientists offer both skills and the capacity to deliver great science, robust data management and IP security and quality manufacturing, at speed, to improve time-to-market and lower the cost of innovation. With a combination of dedicated research facilities for Amgen, Baxter, Bristol-Myers Squibb and Herbalife, as well as 1.9 Mn sq ft of specialist discovery, development and manufacturing facilities, Syngene works with biotech companies pursuing leading edge science as well as multinationals including GSK and Merck KGaA. Syngene follows an April-March financial year. For more details, visit www.syngeneintl.com/

For further information, please contact:

Krishnan G
Syngene International

 +91 80 6891 9807

 krishnan.g@syngeneintl.com