Syngene International's Q4 FY 2016 Conference Call

April 27, 2016

Key Participants from Syngene International

- Mr. Jonathan Hunt : Chief Executive Officer
- Dr. Manoj Nerurkar: Chief Operating Officer
- Mr. M.B. Chinappa: Chief Financial Officer
- Mr. Dinesh Iyer: Investor Relations Team

Presentation Session

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Syngene International Q4 FY-'16 Results Conference Call for Analysts. 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 would now like to hand the conference over to Mr. Dinesh Iyer. Thank you and over to you sir.

Dinesh Iyer:: Good Morning, Ladies and Gentlemen. This is Dinesh Iyer from Syngene's Investor Relations Team and I welcome you to Syngene International's Earnings Call for the 4th Quarter and Fiscal Year 2016. We have with us today Mr. Jonathan Hunt -- Syngene's Chief Executive Officer and the Senior Management Team to discuss the Company's Performance and Outlook. Before we proceed with this call I would like to remind everybody that this call is being recorded and a replay will be available for the next few days immediately after this call. The transcript of this call would be made available in a week's time on the company's website. I would also like to add that today's discussion may be forward-looking in nature and must be viewed in relation to the risk pertaining to our business. The Safe Harbor clause indicated in our 'Investor Presentation' also applies to this conference call. After the end of this call in case you have any further questions please feel free to get in touch with me.

Now, I would like to hand over the call to Mr. Jonathan Hunt. Over to you, sir.

Jonathan Hunt:: Thanks, Dinesh. Let me add my welcome to Dinesh's and say Good Morning to you all. I am pleased to announce Syngene's Results for the Quarter and Year ended the 31st of March 2016. Let me begin by giving a Broad Overview of our Key Financial Highlights for the 4th Quarter and then followed by an Update on our Overall Performance for the Full Year '16:

So looking at revenue, for the 4th quarter our revenue grew to Rs.334 crores, that is recording a growth of 31% in the quarter, this growth was a little bit ahead of the growth we saw for the full year and reflects the benefit of exchange gains as well as increases in billing rates on top of what was good underlying growth. That said even accounting for the currency uplift of 8%; the performance in the quarter was a strong one. We are particularly pleased that the good growth was evident across all of our key business verticals; remember those are our Dedicated R&D Centers, Chemical Development and Discovery Services. I would really add Chemical Development being particularly strong and I would say the stand out performer. That performance in Chemical Development reflects the number of clients that we have got who have key projects going to be moving into the later phases of development and consequently this opens up the opportunity for us to expand the scope of work that we do with them as we support their journey through development towards commercialization.

Dropping down to the P&L if we turn to EBITDA; EBITDA for the quarter grew to Rs.106 crores and that represents a growth of 23%. At the PAT line, Profit after tax for the quarter that grew from Rs. 56 to Rs.66 crores and that is a growth of 18% quarter-over-quarter. PAT margins at 20% for the quarter are in line with a full year average and look to be around the level that we think sustainable going forward.

So let me now turn to the full year picture starting with revenue: On an annual basis very happy to report that we crossed through the Rs.1000 crores market for the full year and that brings us for the full year '16 revenue of Rs.1,113 crores and that represents I think a good growth, very strong performance of (+28%) versus the previous year. Much like the quarter performance the growth in revenue was seen across all of our key business verticals during the year. Changes in exchange rates through the year delivered.

So let me make a quick word on each one of those key business verticals: The growth in the Dedicated Center Business resulted in by the expansion of the services that we provide under the integrated operating model. Under this model Syngene currently has Dedicated R&D Centers for some key landmark clients -- BMS, Abbott Nutrition and Baxter.

Looking then at Discovery Services, Discovery Services grew on the back of strong traction in our Discovery Biology area and this is an emerging area where we see good future potential growth and it reflects, I think the growing interest that you see within big pharma and within the biotech industries as they focus much more their R&D efforts within large molecules or biologics and we expect to have a business there to match that increase in interest that they show.

The growth in Development and Manufacturing Services was largely driven by the Chemical Development group and was driven by the same forces that I described when discussing the quarter.

So we turn now for the full year looking at EBITDA: EBITDA for the year was Rs.364 crores, that is a growth of 24% that delivered an EBITDA margin of 33% which is in line with our historical trends. Looking at full year profit after tax that was Rs. 221 crores, again an increase, the increase there was 26% over the previous year and that delivered a full year PAT margin of 20%, again absolutely in line where we were in previous years.

So let me summarize that for both the full year and the quarter: we saw very strong revenue growth, that growth was well distributed across the key business verticals and reflected both the continued expansion in the number of clients that we serve; just to give you the numbers there; up from 221 clients this time last year to around 256 currently and that continues to include many of the top-10, top-20 biotechnology and big pharma companies in the world. So not only there was an increase in the number of clients but also deepening and strengthening of the relationship that we have with many of those clients. In the year, we think we managed the cost well and that is alongside the strong top line growth allowed us to continue to invest extensively in the business as well as to deliver what we see as some of the best operating and profit after tax margins in the industry.

So if I have had to give you an overall summary, good year from our perspective and my thanks go both to my colleagues and to the thousands of talented people at Syngene that delivered that performance as well as of course to our clients for allowing us the opportunity to serve them.

So if I can turn now to the Outlook for the Fiscal Year FY-'17, let me summarize some of the key elements of our strategy and also highlight some of the moving parts and ongoing investments that we are making to support the growth that we expect to see in the future. Now as you know, Syngene is primarily a Contract Research Organization (CRO),and we are India's leading Contract Research Organization and increasingly being seen as one of the world leaders in the innovation-focused Discovery R&D space. Our services encompass integrated end-to-end discovery and development for Novel Molecular Entities (NMEs) and we do that across the broad range of industrial sectors spanning Pharmaceuticals, Animal Health, Cosmetics, Nutrition, Consumer Health and Biotechnology and we specialize in delivering Discovery Services, Development Services and also API Manufacturing Services for innovator companies in those industry groups. Within each of these three areas we believe we are offer our clients not only world-class capability but also distinct economic advantage and we offer those services through a range of flexible business models ranging from fully dedicated research centers to Full Time Equivalent or FTE models through to fee-for-service projects and in fact we can do any combination of the above we customize that depending on our client-specific requirements.

So in short, our strategy is to offer a one-stop shop for organizations looking to optimize their R&D spend without compromising on quality and we remain fully committed to that strategy.

That said, over recent years a number of our clients R&D programs progressed through the development phase and we had supported them on this journey, as we done that we had the opportunity to gain significant process knowledge and experience by conducting many of the key process development and optimization activities for those molecules and we believe that typically makes us a very strong partner of choice to become a or the preferred manufacturer of choice for development batches on large scale commercial supplies as those molecules move towards commercialization. It is based on that insight that we do intend to evolve our strategy further broadening it from a more narrow Discovery and Development CRO focused to become a fully-fledged Contract Research and Manufacturing Services Organization or CRAMS and that would mean that we would offer commercial scale manufacturing with an innovation focus alongside our existing Discovery and Developmental Services.

So let me just tell you a little bit about how we are progressing on that: So from a capacity development perspective, as you know, we have commenced the process of establishing a new commercial scale facility over in Mangalore; we acquired a 40-acre land that sits within Special Economic Zone and I am happy to report we are making good progress on acquiring all of the permits and regulatory approval that are needed to commence building of that new facility, and we absolutely remain on track for that site to become operational by fiscal year ’19. Now you may also know that we are in the process of expanding our large molecule or Biologics manufacturing capability by establishing a new unit here in Bangalore.

Happy to record again, this is progressing to plan, the building is near complete and it is in the final stages of fit out and we expect all of that to be completed by the end of this calendar year, and on that basis I think we will be ready to support client work by the beginning of the next financial year i.e. April 2018.

Also as mentioned in the last quarter, we have other CAPEX that is ongoing, we would make good progress of expanding our laboratory capacity. The construction of Phase-I of the Syngene research center is now complete, it is inaugurated and that first phase is now up and running – again, my thanks go to team for bringing that in not only on budget but actually in record time. From a client perspective, I would characterize it, I think, as we are in ongoing but early stage discussions with a number of potential clients and for those of you that are thinking about how you model that I would expect a steady build up in this facility over the next 2-years.

So to try and sort of step back and sort of summarize the position around CAPEX, we had earmarked a growth CAPEX budget of around US$200 million and that was to be invested over a multi-year period starting in FY-’16 with full completion by FY-’18 and as of today we are about 25% of the way through that. So, the balance if you do the math that is about US$150 million still to be invested, that should be done this year and through into FY-’18.

Let me make a few closing comments about the industry and about my expectations for Syngene in the coming year: Globally, there continues to be increasing trend towards the outsourcing of R&D activities both within large pharma and within biotechnology companies. That trend has been particularly strong in moving that work to the Asia region, we expect that to continue.

Secondly, there is an emergence of VC-funded small or virtual organizations that really think they have got a great scientific idea and what they are looking for is a mature R&D service provider and we think that is a second avenue of growth within the CRO industry.

We believe with Syngene's world-class scientific capabilities, the track record we have got in terms of being very customer-centric and a proven track record, high quality operations and high quality compliance, we are very well positioned to take advantage of both of those opportunities. So you take those together, that being the external opportunities, strong recent performance, and our extensive capital investment plan and I believe we are well positioned to grow in the future and it puts us on track to achieve our mid-term guideline revenue target in 2018 and also to deliver excellent returns for our investors.

So let me stop there, turn the call back to the operator and we are delighted to take any questions that you may have. Thank you.

Q & A Session

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 Kartik Mehta from Sushil Finance. Please go ahead

Kartik Mehta: Sir, my question is related to revenue growth which is I believe a factor of four things; one is that currency depreciation, another is new client acquisitions, third is the client mining and fourth is the billing rate. So which factor according to you have played a bigger role in the entire financial year?

Jonathan Hunt:: I will make a couple of comments and then I will invite Chini, CFO, to may be put his view on this as well. Clearly, we laid out in the press release both the currency impact that we saw in the quarter and for the full year, so 8% and 6%, but when you are recording top line revenue growth of 28% for the full year, there is clearly a lot more going on than currency, the underlying strengths of the growth in the organization is excellent and I think that comes from all of the things you mentioned, I thought the way you are looking is absolutely right, we have seen an expansion in the overall volume of work we are doing, I gave you the numbers about new client wins, we went from, again if I can remind you 221 to 256, so good expansion, I actually think that if you go back and check where we were a year ago, that is an improvement even on the rate of expansion from previous years, so a good broadening. Again, an awful lot of it is clients that already worked with us realize that if they test us we can do a whole lot more. So I think we have seen a good expansion of people increasing the scope and also the complexity of the work we do for them and I am very happy about that. Chini, any comment you like to make?

M.B. Chinappa: Kartik, you had asked on the impact of the rate increase. We do not have a specific number but by and large FY-'16 rate increases were muted because of the benefit that we received from the currency depreciation. Normally in constant currency we would expect increment of about 3% to cover us largely in our wage inflation but last year because of the benefit that came from currency we kind of held back on our rate increases, by and large.

Kartik Mehta: Having said that customers are by and large okay to accept the currency depreciation, the advantage you are taking at home, right?

M.B. Chinappa: By and large we look at it on a total basis with wage inflation in India, other cost increases, benefit from currency etc., and we look at building all that into the overall price increase.

Kartik Mehta: So tomorrow, if the currency appreciates let us say then would you be able to pass on back to the customers or maybe you increase the billing rate, is it possible?

Jonathan Hunt Not entirely because clients generally in the west are used to only 2% to 3% inflation. So you cannot expect to overnight increase it by a larger percentage. But while saying that we are priced very favorably versus the competition both from China and from the western CROs. We believe there is a lot of headroom for us to increase rates to cover us for inflation.

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

Charulata: I wanted to know the breakup of Dedicated Centers, Discovery Services and Development?

Jonathan Hunt: The general sense, we do not break out all of our P&L, but I am going to ask Chini just to give you a sense of how that has moved. I will give you an overall comment which is actually given the rate of growth that we have seen in the business this year, while the Dedicated Centers are a sizeable proportion of our revenue, the degree of concentration that we have got, the amount of the overall revenue that sits in that Dedicated Center is actually diminishing. That is not because we are not winning new work and growing in the Dedicated Centers, but it is the other service lines that we have growing a little bit more quickly. So that would be my overall sense, we are becoming less dependent on a small number of clients and we are broadening that out and that is a very positive trend within the business.

M.B. Chinappa: The Dedicated Centers now represent 33% of our total revenues; Discovery Services is in the mid-20s and Development and Manufacturing Services is just above 40%.

Charulata: There is an increase in the debt obviously for the CAPEX. I wanted to know the details of the debt.

M.B. Chinappa: The total borrowings was about $100 million, we just raised $100 million of ECB loan as at March end, this is for average maturity of 4-years and 5 months, and if we are looking at the pricing of this, this is at average rate of 140 basis points above LIBOR. The interest cost associated with this loan will largely start to hit from FY-'18 onwards because most of the loans will be deployed towards capital work-in progress, roughly if you take interest cost plus rate we are looking at about 2.5% being the cost of the loan and that would be capitalized in FY-'17 and start to hit our books from FY-'18.

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

Prakash Agarwal: Sir, a question on guidance. Given the fact we have seen a robust growth of fiscal '16 28%, would you help us in guiding for the revenue growth as well as some margin color?

Jonathan Hunt: I will be very happy to. Chini, if you would like to comment as well. I go back to some of the comments I made in my introductory remarks, I think it is pretty much everything you need in there to get a good hand along where we are going, we expect good momentum into FY-'17, as I said that puts us on track for that mid-term guidance that we put out there about 5-years ago to remind you that was US$250 million in FY-'18 in that area, it is not a point estimate, it was a 5-year ambition, but we are moving very-very clearly towards that and we have a good progression towards that target and I think from that you can triangulate and back calculate the sort of implied growth rates that we would need to average in the next couple of years and from that you can see that our performance in FY-'16 very much puts us at the right sort of growth rate to do that. Second comment I made was around the stability we are seeing in the profit after tax margin; it was 20% for the full year, that is in line with what was in the previous year and that feels to be around the area that we think is sustainable going forward and I am sure it is a quick calculation you can do it if you take those two figures and it will spread out everything else out that you would want to look at in terms of modeling it. So I would not propose to go beyond that in terms of point estimates and guidance but it gives you good sense of it. Chini, anything else that you would add to that comment?

M.B. Chinappa: I think you captured it, John. Prakash, just to also make a point that FY-'16 growth of 28% included 6% benefit from the currency movement.

Prakash Agarwal: So how we are seeing the year in terms of our hedging position so that we have some sense on the FOREX gain?

M.B. Chinappa: So in FY-'16 we enjoyed was just below 66 was the average billing rate, the net realization towards was just below 64, we actually realized only 63.67 to the dollar net of the option premiums that we paid to hedge our inflows. If we look at FY-'17 we see that in the range closer to 67, so we see at least Rs.3 improvement in the effective realization for US dollar in FY-'17.

Prakash Agarwal: Anything beyond would be the FOREX gain, is it correct?

M.B. Chinappa: So we have put options to give a net of put option premium, minimum rate of 67 for FY-'17. If the rupee were to depreciate more, we will participate in some of these gains, but we get a floorw rate protection at 67 for the whole of FY-'17.

Prakash Agarwal: So given the fact that we already have Rs.3 cushion, would it be fair to say that on constant currency we would still be able to grow at (+20%)?

M.B. Chinappa: Again, Jonathan pointed to the mid-term guidance of 250 million… again not putting it as a point estimate 250 million for FY-'18 that would imply about 22% growth per year between FY-'17 and FY-'18 to get to that number, that is an average 22%...

Prakash Agarwal: That includes any FOREX gain?

M.B. Chinappa: It is a dollar …

Prakash Agarwal: On the margins, we saw this employee cost going up and you did mention that there is a provision for the bonuses. So ex of bonus, we are still good with the run rate of about 33% margins. Is that correct understanding?

M.B. Chinappa: Yes, so we do not see anything impacting our margin and we are kind of the 33% EBITDA margins and 20% PAT margins seems sustainable at this point.

Prakash Agarwal: So the margin dip that we have seen is expected to come back, right?

M.B. Chinappa: Q4 has been impacted by year-end provision for employee bonus**.**

Prakash Agarwal: Of the USD 200 million that we thought about raising and spending money, so USD 100 million is done, so the remaining USD100 million I assume is for internal accruals or in future we might look for raising more funds?

M.B. Chinappa: We would look to internal accruals to fund the balance. USD 50 million is already spent against that USD 200 million close of FY'16, something like that.

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

Surya Patra: Just a clarification on the Rs.67 realization against dollar what you mentioned. The option cost has already been provided for in FY'16 for that or how is it?

M.B. Chinappa: In FY-'17 I am talking of net of the put option premium, the realization is 67, let us say we have a hedge at 69 and we have paid Rs.2 for that, so we are looking at net of put option premium of minimum rate of 67.

Surya Patra: In the opening remark, Jonathan has indicated about better growth that you are seeing on the Biologics front. So can you just comment what kind of growth that you have seen and to what level that you have achieved on the Biologics or the Services front?

Dr. Manoj Nerurkar: The growth that we see on the Biologics front is really the effect of increasing number of Biologics programs on our partners pipeline, just to give you some data, if you look at the revenue contribution in overall pharma industry that come from Biologics that is in low 30%, but if you look at the pipelines of our partners or in general the Pharma and Biotech industry you will see about 50% of that pipeline being occupied with Biologics kind of molecules. So this clearly has an impact on the kind of work that we are doing for them. The good thing that Syngene did early on is that we established our platform in Biologics, Discovery and Development so that when our partners were ready to outsource that kind of work we were already prepared to offer that as matured services from Syngene side and I think that has resulted into the kind of traction that we are seeing. What we have also done apart from maturing the services is, if you look at our press release, we have hired people at a senior level who bring in that experience… the hiring of Dr. Jayashree Aiyar who comes at a Head of Biology position in Syngene, clearly brings that kind of experience, which helps us further mature our talent pool in this area.

Surya Patra: Can you just clarify something more on what is the nature of the Biologics Services that you have started, whether these are like sort of some Discovery or some developmental activities or what is the nature of the Biologics Services that you are at?

Dr. Manoj Nerurkar: So Surya it is both, essentially it starts with the Discovery of Bio-Therapeutic Molecules, that is something we do for our partners, and then once the molecule is selected we also offer the Biologics Process Development Services to develop the drug substance initially for the clinical supplies but eventually that will move towards commercialization as the program matures. So we are offering kind of end-to-end services. The way we used to offer them or continue to offer them on the small molecule side, we have now increased traction on that front in Biologics for the large molecule area as well.

Jonathan Hunt: So to summarize on that the service lines that we are offering in Biologics and Biology absolutely mirror in parallel to what we do in the small molecule chemistry space, we can take our clients and support them through exactly that same level of journey and the reason for that is as Manoj quite rightly puts it, if you look on a global basis whether it is in big pharma or biotech, those technologies are converging to the point that effectively Discovery and Development Sciences becoming modality neutral, you are as likely to solve a scientific problem with a chemistry based small molecule solution as you are with a biology based large molecule and we need to be able to and are happy to be able to offer those services that cover both of that to our clients.

Surya Patra: This is again a clarification on the kind of revenue contribution what we indicated that Development and Manufacturing Services account for around 40% of our total revenue. So whether this 40% is a kind of meaningful jump compared to last year considering the kind of two molecules manufacturing what we have initiated in the recent quarters?

M.B. Chinappa: Yes, there has been a steady increase in the component of the Development and Manufacturing Services as a percentage of total revenues, this is reflective of yes, as you mentioned the two molecules that have gone commercial, but also largely the progress that the other molecules are making as they move towards commercialization.

Surya Patra: Can you just update on the molecular pipelines, how many molecules and which days?

M.B. Chinappa: It is a high single digit number of molecules that are in Phase-IIB or Phase-III.

Moderator: Thank you. The next question is from the line of Abdul Kader from Centrum Broking. Please go ahead.

Abdul Kader: Sir, on the full year basis, we reported a growth of 29%. So as what you said that a 6% came from the FX gains. So I just wanted to know that we have a total 256 clients, so this balance 35 clients which were newly added during the year, what percentage of growth came from these clients?

Jonathan Hunt: Just to correct the first number, actually the growth rate for the full year was 28%, not 29%... I would be delighted with 28%, I am sure I would be even more delighted with 29%, but to make sure that we get the numbers accurate it was 28%. You did track the right expansion in the number of clients but we do not actually break out the P&L revenue growth by each of those individual clients. So I am not sure if I will be able to give you the level of detail that your question would require.

M.B. Chinappa: Abdul, largely when new clients get added they start at a very low or kind of low numbers and it tends to build up over the year. So most of our growth really comes from organic growth winning from existing clients, but we look importantly at new clients' addition because they would make a difference in the later years.

Abdul Kader: My next question is with regards to the effective tax rate in Q4. So that has been increased to almost 15% or 16%. My question was that what led to this increase in the tax rate for the previous quarter, i.e., Q3 the tax rate was somewhere around 13%?

M.B. Chinappa: So there is some benefits that one gets from additional investments where the CAPEX that we added in Q4 was relatively lower and that caused the increase in the Q4 tax rate, but look at the tax rate from a full year perspective and it averages 14%, that is where we see ourselves at least in the next year in FY-'17.

Moderator: Thank you. The next question is from the line of Ranvir Singh from Systematix Shares. Please go ahead.

Ranvir Singh: Sir, a question is related to this Mangalore manufacturing facility. Can you give a little detail when we are expecting this to roll out and what peak revenue we expect from this facility?

Jonathan Hunt: I am very happy to give you an update on what we are doing there; as I said in my prepared comments it is a 40-acre site, it sits in a Special Economic Development Zone and we are making good progress in those initial phases of things we need to do, so #1 we are looking for various certificates and regulatory approvals before we could commence the building and the development in that site. The expectation is that that will take FY-'17, FY-'18 and we should be completed and ready for that site to be operational by FY-'19. In terms of the revenue we do not give particular individual revenue guidance at that level of granularity. The only thing I invite you to think about is when you build a brand new plant even when it is incredibly attractive to clients you do not fill it on day-one. So while we will be ready and operational from FY-'19 I would not expect it to be 100% utilized at the very beginning. So expect to be able to model that at the later date with a growth of revenue at that facility. Again a little bit out there in the distance, but I think the short-term impacts of things you need to think about to model it I hope would be helpful there in laying out the overall CAPEX budget, how much is already completed, how much there is to be done between now and FY-'18 and then giving you a very clear statement we expect to be running in Mangalore or ready to by FY-'19.

Ranvir Singh: So our guidance for FY'18 is not factoring revenue from this facility, right?

Jonathan Hunt: In terms of impact on revenue, no, we will still be in the investment building phase throughout FY-'17 and '18 for Mangalore and then that would become fully operational in the following financial year, you got that absolutely right.

Ranvir Singh: What would be total investment in this facility?

M.B. Chinappa: We are looking at about $100 million.

Ranvir Singh: So $100 million is for this facility. So I wanted to understand exactly $100 million is going to this facility or part of it is going to other CAPEX also?

M.B. Chinappa: So just coincide that the $100 million loan and $100 million CAPEX in Mangalore, but the total CAPEX outlay is really $200 million and to fund that $200 million CAPEX we have drawn on ECB loan of $100 million.

Ranvir Singh: In balance sheet we see investment short-term investment for Rs.270 crores. So can you give a detail where this has been employed?

M.B. Chinappa: These are liquid funds, money market instruments which are basically used to park all the surplus cash before any deployment into CAPEX.

Ranvir Singh: Now, we have expanded our client base significantly. So contribution of top-10 clients be how much?

M.B. Chinappa: It is 69% for the full year FY-'16.

Ranvir Singh: So I believe earlier also it was 70%. So that remains almost same?

M.B. Chinappa: It has come off from 71% to 69%.

Ranvir Singh: Of the three verticals, that Research we have Discovery, then development and Manufacturing Services, just I wanted to understand which part is actually FTE basis and where we are doing indirect billing?

M.B. Chinappa: We would say most of the Dedicated Centers and the Discovery Services is in the form of FTE billing, most of the development in the Manufacturing Services in the form of fee for service billing.

Ranvir Singh: I think 33% Research and less than 20% Discovery, so roughly 53% is on FTE and remaining is generating revenue on cost plus basis, right?

M.B. Chinappa: Yes.

Moderator: Thank you. The next question is from the line of Vipul Shah from Shubhmangal Invest. Please go ahead.

Vipul Shah: My question is partly answered, but still can you throw some more light on the billing rate, how billing the clients is done… is it like in IT Services, like do you bill the client from per hour basis?

Jonathan Hunt: We normally bill per scientist per year because most of the research is actually conducted over a lengthy long periods of time and definitely it is not an hourly rate, it is largely per annum, sometimes per month or something, that represents the largely Dedicated Centers and the Discovery Services…

Vipul Shah: What about the third business?

Jonathan Hunt: Other fee-for-service is basically on project completion, it is based on the output and not on the input.

Vipul Shah: How our billing rates compare with other contract manufacturers in US or China?

Jonathan Hunt: This I am giving a very broad number; we are just about $60,000 per scientist in India, in China priced at about $90,000 to $100,000 per scientist per annum, we would expect western CROs billing rates at about $175,000 per scientist and big pharma looks at internal cost somewhere about $200,000 to $240,000 per scientist. So that is the cost advantage that we bring, of course, that is backed with the skills and the…

Vipul Shah: A huge gap between internal, CROs and ours?

Jonathan Hunt: Yes.

Moderator: Thank you. The next question is from the line of Sandip Baid from Quant Investments. Please go ahead.

Sandip Baid: If you give me some data on the headcount as of March 31st and how many of them were scientists and how does it compare with last year? Second, on the dedicated centers for some time we have three clients out of which the smallest one is quite small. So whether there is any ramp up that you are seeing in the number three client and are the negotiations happening with some of the other companies on taking them for the dedicated centers?

M.B. Chinappa: Headcount numbers is 2967, just below 3000 and the number of scientists is just below 2600.

Sandip Baid: How does it compare with last March?

M.B. Chinappa: It is up by about 10%, I will give you the exact numbers after Jonathan addresses the second question.

Jonathan Hunt: There was a question of around where are we with the dedicated centers in terms of ongoing discussions. Of course, they are ongoing. I am not going to give you chapter and verse on how we are progressing with those. What I would say is that the degree of visibility and as you know my background is on the client side, is the degree of visibility I think is growing across the industry to specifically what we have done with those Dedicated Centers and it maybe the largest and most visible of those is the BMS relationship and that is becoming a little bit of a case study for many clients, certainly we have an active series of ongoing discussions across the industry with people that are interested in it, they see as a unique model, they see that something is differentiated and certainly if you judge it by the delivery that we have had with the three Dedicated Centers that we have got so far is something that is both economically delivering an advantage to our clients but much more importantly delivering a scientific output that they are very-very happy with. So, it is a good operating model, it is something that Syngene has managed to evolve with the clients ,I think uniquely well and from that point of view we are regularly engaged in discussions with clients, we want to find more about that and see if it is something that would work for them.

Dr. Manoj Nerurkar: This is Manoj. Just to add what Jonathan said in terms of looking at new clients and the discussions and so on, two points I want to make on that particular one where Jonathan said, the additional discussions that happen is where we are working with some of the clients and there is certain degree of maturity and critical mass that we may have reached and we say okay. Now that we are here and how do we look at converting this into more long-term strategic, dedicated center kind of relationship, that is one. The second important piece is the three clients that we have, right now, BMS, Baxter and Abbott Nutrition. We go to them and say, okay, now that the relationship is successful, it is mature, we are doing these many things, what more can we do, can we look at different additional services that we have not considered under the center, under current model and therefore, are there additional opportunities for us to work together. So, these are the two things that really result into increase in the Dedicated Center as a vertical as far as the revenue is concerned.

Sandip Baid: What I wanted to understand was that are we at a stage where we can say that over the next 12-months or 15-months we are likely to add a couple of clients for Dedicated Center?

Dr. Manoj Nerurkar: Sandip, that is always our hope but until that happens would be a little difficult for us to talk about.

Sandip Baid: But that would be our internal target?

Jonathan Hunt: We really don't know, it is always our target to expand every element of our service lines. So I would not want to overemphasize that. We are happy with the progress that we are making within those Dedicated Research Centers and the comment I was trying to get to where testing indicates where we are going is that it is something that I think has called the attention of a number of large pharma and biotech companies, but as ever I am not going to give you forward-looking view on that, very happy to cover that as and when something comes through to fruition.

M.B. Chinappa: Sandip, I will just answer your question on the employee numbers; the number of scientists have grown 15% from 2227 to 2571 and the total headcount has grown 11% from 2666 to 2967.

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

Charulata: I have two questions; one is relating to regulatory approvals for Mangalore, I wanted an update on that? Second question is if I could now what were the tax benefits that the company enjoys?

Jonathan Hunt: On the Mangalore regulatory approvals, they are ongoing, they are not fully completed yet, but we are making good progress.

M.B. Chinappa: We have received the approval from the state level high level committee for a Mangalore facility at this level. We are looking at the PCB approval to come in, in this calendar quarter, that is April to June. Simultaneously the basic engineering is being worked out by the projects team. On the tax benefits, we have multiple SEZ units and even the new Mangalore facility will be a new SEZ unit. So each SEZ unit enjoys a 5-year full 100% tax holiday, in the second 5-year there is a 50% tax holiday, and in the last 5-years still benefits we will get based on the investments that is being made. So each of our units are like some of them have completed five years and are being subject to 50% tax, all the new units are subject to tax. So it is a mix of various tax rates that gives us finally a blended effective tax rate of 14% for FY'16 and we see FY'17 also at these levels, FY'18 onwards we see it inching up by about 2% p.a. towards the MAT tax rate.

Moderator: Thank you. The next question is from the line of Shardha Patil from Wealth Managers. Please go ahead.

Shardha Patil: As you guided that till FY'18 we see the PAT margins sustainable at a level from 20%. I wanted to understand better as to as we move from CRO to full-fledged CRAMS player, how do we see the margins moving?

M.B. Chinappa: We do not see the margins going down because of the fact that we are servicing innovator companies. Generally, there is a perception that manufacturing has lower margins, is that largely linked to manufacture of generic molecules. One would expect that innovator molecules has a higher margin similar to the margins we enjoy for our Discovery Services.

Shardha Patil: At least directionally we do not see the margins going down?

M.B. Chinappa: Of course, the occupancy is important because it is at what level of occupancy we are operating at. But if we maintain the same levels of occupancy, we see a higher material cost but a lower employee cost and finally margins similar to what we are currently enjoying.

Jonathan Hunt: The way you posed your question tells me you are thinking about that issue in exactly the right way.

Shardha Patil: My second question pertains to like we are looking at around $200 million CAPEX. This is completely for the CRAMS business or it also includes the part of the CRO?

Jonathan Hunt: No, that is spread across the whole business, just to recap on the numbers; it is a multi-year $200 million CAPEX investment, we are already 25% of the way through that, so we have already invested around US$50 million, that went into a whole range of things; some of it was related to the move into CRAMS and manufacturing, others went into things like building improved and increased laboratory space. So it covers a whole range of the business. We have got about US$150 million of CAPEX to go, that should be invested in FY'17 and '18.

Shardha Patil: When do you see this CAPEX to start contributing to revenue?

M.B. Chinappa: Again, I go back to my owning statement; I think there are three elements there. If you look at something like the Syngene research facility, that building, the first phase of it is complete, and therefore at least part of that facility is capable of generating revenue as of today. The second tranche we are looking at some Biologics manufacturing capability, we build the building, we are fitting in, we will qualify it at the beginning of next year. So I think there you should start to see that contribute to revenue, maybe from April of next year so the beginning of FY'18 and the last remaining big piece of that would be the Mangalore facility and I think we will be approving and building and fitting that over the next two years with an expectation that it would be ready for revenue generation by FY'19.

Shardha Patil: If you could give any color on what kind of peak capital turnover do you expect from the Mangalore facility starting FY'19?

M.B. Chinappa: We cannot say FY'19, as Jonathan said it will take us some time to ramp up and fill up the capacity; general target would be that by the end of the second year we are operating at the end, I am not saying for full of the second year, but by the end of second year, we are operating at about 70% capacity utilization, that is our target, but of course it is subject to the actual buildup of this.

Jonathan Hunt: That gives you enough color to be able to model it equally. I would caution you that by the time we have done that, we are into FY'21, that is quite a long range forecast either on outside or your side, but I hopefully that is helpful.

Shardha Patil: In the year FY'14, we have benefited around 6% from the currency movement. So how does this number stand in FY'15?

M.B. Chinappa: In FY'15 there were a very little currency depreciation, so most of the growth was equal to constant currency growth, there was above the Re.1 movement only, so it is not a major swing because of the rupee depreciation.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand over the floor back to the management for closing comments. Over to you, sir.

Jonathan Hunt: Just wanted to thank everybody for their interest and for the questions. If I summarize FY'16, we are happy with the performance; we saw good revenue growth during the year, we saw good ability to manage costs and when you combine that with good cost management and very strong top line growth we had the ability to invest in CAPEX for future growth rate while delivering some of the best operating and profit after tax margins I think you see in the CRO space. So all in all, a good year and we are very happy with in terms of the performance. So with that thank you and I Wish You A Good Day.

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

Note: This document has been edited to improve readability