

Syngene International's Q4 FY 2020 Conference Call

May 13, 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 Fourth Quarter and Full Year FY2020 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 conference 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. Jill Deviprasad from EY. Thank you, and over to you.

Jill Deviprasad: Thank you, Margaret. Good afternoon, everyone. Thank you for joining us on this call to discuss Syngene's Q4 and full year FY2020 performance. To discuss the financial and business performance for the fourth quarter and full Year, 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. After our opening remarks, we 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 our business. The Safe Harbor clause indicated in our investor presentation also applies to this conference call. The replay of this call

will be available for the next few days immediately after this call and the transcript will be made available in a week's time on the company's website.

With this, I would now turn the call over to our Managing Director and CEO - Mr. Jonathan Hunt

Jonathan Hunt: Thank you, Jill, and thank you all for joining us on this call to discuss Syngene's fourth quarter and full year results. As usual, I will first give an overview of the final quarter and full year financials, followed by an insight into the key highlights of the quarter. I will also talk about the impact of COVID-19 on operations, as well as the important work that we are doing in testing and research into this virus. Then I will handover to Sibaji to share more details on the financials of the quarter and full year.

So if you look at the fourth quarter, really it was a milestone quarter for Syngene with revenue crossing Rs.600 crore for the first time, that is a 13% growth on a year-over-year basis. I think it is worth noting that we are reporting this growth against what was a particularly strong quarter last year where we recorded 30% growth as a result of bringing some April projects forward into March, a year ago. So this fourth quarter really was very strong.

Continuing growth in our Discovery Services business and a strong performance in Development Services, were really the key to the performance in the quarter. The strong business performance was also coupled with tight cost control on operating costs and overheads which helped improve profitability for the quarter.

EBITDA for the quarter grew 24% to Rs.225 crore, while PAT was also up 20% to Rs.120 crore.

For the full year, we are reporting a robust 10% on the top line which translates into a 10% growth in profit after tax and a small increase of 10 basis points in the PAT

margin to 17.5% for the full year, up from 17.4%. Sibaji will share additional details in a moment.

Looking then at the operational Highlights for the fourth quarter. During the quarter, we commissioned a new research facility within the Biocon Park Campus in Bangalore. This facility is spread over 150,000 sq. ft. across five floors and it will have a multi-disciplinary team of scientists that will support discovery research in areas like biology and microbiology. It incorporates the latest thinking in office and lab design as well as safety and energy efficiency features.

The construction activities in our API manufacturing facility in Mangalore have been completed and we have successfully executed the first batch from this plant. As is required of all such facilities before commencing full scale operations, we are now in the process of completing all the qualifications and validation activities and I think that will take us through much of this financial year to complete those.

With these new facilities going on-stream, Syngene's total research and manufacturing footprint is now up to 1.9 million sq. ft., just short of 2 million sq.ft., I want to remind you that we are in the midst of a program of investment in facilities that will fuel our future growth. Like any investment, it will take time to fully utilize the new capacity in R&D and in manufacturing. In the meantime, the depreciation will have a dampening effect on our profitability in the short-term. Sibaji will talk a little bit more about that in a moment.

Now one of Syngene's strengths, I think is our strong track record of regulatory compliance and over the course of the last year, we have cleared audits not only by our clients, but also by regulators from across the globe and that includes the US FDA, the European EMEA, Japanese PMDA and others. In this quarter, I am pleased to report that we successfully cleared another US FDA audit this time of our small molecule bioanalytical laboratory which is in our clinical development group.

Before I hand over to Sibaji, let me take a moment to talk about the ongoing COVID-19 pandemic and the impact it is having on the operating environment and on our business. In light of the nationwide lockdown announced by the Union Government of India, we temporarily suspended all operations except for a core team focused on ensuring all of our facilities, continue to be held in a safe state of suspended operations. We also made sure that we are ready to return to operations quickly and of course safely. We invoked our business continuity plans and rapidly implemented a number of measures to ensure the safety and wellbeing of all of our employees while protecting sites and critical operations. Now as you know the Union Government took the decision to include pharmaceutical and research companies into their categorization of essential services, and that has allowed us to continue to operate as long as we put in place a comprehensive range of operating controls to protect our employees and limit the spread of the disease.

Over the past few weeks, we have gradually resumed operations, having introduced strict protection measures across all our sites. We are currently running at about 70% of normal operations and I think we are looking to return to as close to 100% as social distancing will allow by the end of May.

In our facilities, we have increased physical distancing by introducing modified seating in laboratories and offices. We have increased our transport fleet to ensure that one person per double seat is the norm and we have zoned each site to a strict movement on site of employees and just reduced the number of contact points between employees. We have also introduced shift work in our research and development services to reduce the density of staff on site at any given time and instituted things like mandatory temperature checks twice a day for all employees. Like other companies, we have been making extensive use of IT and other technology-enabled solutions to work from home during the lockdown. While many of our staff in the enabling functions continue to work from home, we will continue to remain connected using technology.

Our supply management teams are working with our regular and alternate vendors to ensure uninterrupted supply of raw materials and other necessary items, as well as with our freight forwarders to ensure seamless delivery. We have also built up stocks of critical materials to avoid short-term interruptions of supply. So, as we speak, we have successfully ramped up our supply chain operations and we do not currently see any limitations on our ability to operate due to the supply chain.

From a performance perspective, the pandemic had a relatively small but positive impact on the fourth quarter. We brought up a few projects forward as clients accelerated work ahead of their own lockdowns. Clearly, the first quarter is going to show some direct impact from the suspension of operations, a near complete suspension of all operations for three weeks of the quarter and then a gradual return to near full-scale operations through the remainder of the quarter. That gives you a good sense of how you can model that. In addition, the measures we put in place to ensure safe operations are adding to our day-to-day costs and we will need to both optimize these through the year as well as absorb them.

I am sure you are likely to have many questions about the impacts of the pandemic in the current quarter and beyond but I am sure you will also understand that in such a dynamic situation, it is difficult for any of us to know with precision how the coming weeks and months will unfold.

But with that said, I do want to summarize some key points. Syngene is a well-funded, financially secure business and our current planning scenario gives us no concerns with regards to cash flow or liquidity for the year ahead. Now, of course, we will manage both opex and capex prudently and in a risk-managed way throughout the year. Secondly, as an essential service with an effective infection control program already in place, we are ready and able to operate at, or close to, normal operating levels. We do expect to see a marked impact from COVID-19 during the first quarter, but it is too early to know precisely the extent of that impact. So, we will update you as we go through the year. We do have very good visibility on the order book for the

second and third quarters, and this gives us confidence that any impact will be restricted to the first quarter and we should see a clear return to more normal performance from second quarter onwards.

Syngene is also using its scientific expertise and world-class resources to support and contribute in the fight against COVID-19. As announced at the end of last month, we have repurposed one of our labs to set up an RT-PCR based COVID-19 testing laboratory. This facility has been approved by the ICMR. It has got a dedicated team of specially trained scientists who are testing samples received from hospitals here in Bangalore as we speak.

We have also entered into a partnership with Pune-based Mylab Discovery Solutions to supply reagents for use in their indigenously developed testing kits. Syngene, as you know, has got a large-scale oligonucleotide facility and we have repurposed that to support manufacturing of these reagents.

So with that, let me quickly summarize the quarter performance. Discovery and Development Services continue to show strong growth. Our new research facilities give us increased capacity in core scientific areas. The Mangalore API facility has started the qualification process and is getting ready to commence commercial scale operations towards the end of this year. Our robust quality and performance standards have once again been audited and found to be in good order by the USFDA.

For the full year, I think after a slow first quarter, we recovered quickly and gained momentum through the year and increasingly applied financial discipline to ensure that our cost levers were in good order and that drove, what I thought, a particularly good profit performance at the end of the year. So, notwithstanding the disruption of the coronavirus, I do think we are well positioned for the year ahead.

With that, I will hand over to Sibaji to share more details on the financial performance.

Sibaji Biswas: Thanks, Jonathan, and a very good afternoon to you all. I am happy to take you through our fourth quarter and full year FY2020 earnings. I will begin with a briefing on the earnings for the quarter and follow it up with the full year numbers.

We are currently going through unprecedented times and while it is difficult to give precise guidance at this stage, I will make some directional comments for FY21. However, a word of caution, all such guidance should be seen in context of the volatile conditions around us and we will update such guidance later based on the evolving situation.

So now let me start with the quarter. The fourth quarter delivered steady year-on-year revenue growth. Revenues increased by 13% to Rs.628 crore as compared to Rs.555 crore in the same period last year.

Our sales also improved by 13% during the quarter, led by a continued strong performance in Discovery Services and a very healthy Q4 performance in Development Services. We suspended most of our operations with the exception of Manufacturing Services once the lockdown was announced on 24th of March by the Government. This was done after consulting key stakeholders, including major clients, who were very supportive of our decision.

During the quarter, raw material and power costs as a percentage of revenue stood at 25%, down four percentage points from last year due to change in sales mix in favor of Discovery Services. As you may know, Discovery Services tend to consume a lower level of raw materials than our Development and Manufacturing division. Power cost as a percentage of revenue also improved due to energy saving initiatives and due to buying power from the open market at better rates. So, both our direct cost lines showed improvement during the quarter. As a result, the gross margin for the quarter stood at 49% compared to 47% for the same period last year, an improvement of 2% points.

Let me now take a moment to explain other cost lines in the P&L. During the quarter, staff cost increased by 25% to Rs.164 crore as compared to Rs.131 crore in the same period last year. This was explained in our last call, and this increase is attributable to three main factors - The first is ongoing employment cost, which has grown around 12%. A further 4% of the growth came from addition of R&D facility at Hyderabad, the new research facility in Bangalore and from opening of the Mangalore manufacturing plant. The third and the final factor were the additions we made to the senior and middle level leadership to create an organization with the skills and experience to take company to the next phase of growth. As a percentage of total revenue, staff cost represent 26%, compared to 24% in the same period last year, an increase of two percentage points.

Turning now to other expenses, which comprises of selling expenses, IT cost and other general overheads, are up by Rs.8 crore to Rs.82 crore compared to Rs.74 crore in the same period last year. This is on account of additional operating costs that we incurred in the new research laboratories in Hyderabad and the newly opened research facility and the renovated research lab, both in Bangalore. As you can see, the 11% growth rate is lower than the revenue growth rate of 13%, which is a result of our ongoing efforts to optimize our cost base. Other expenses as a percentage of revenue reduced by 30 basis points.

EBITDA for the quarter was up 24% to Rs.225 crore compared to Rs.181 crore in the same period last year, while profit after tax was up 20% to Rs.120 crore as compared to Rs.100 crore in the same period last year. Depreciation stands at Rs.62 crore which is a 41% increase from Rs.44 crore in the same period last year, and it is mainly owing to the investments in the Hyderabad facility, expansion at our main Bangalore facility and commencement of the Mangalore commercial API plant. EBITDA and profit after tax margins for the quarter are at 36% and 19% respectively, compared to 33% and 18% respectively in the same period last year - so both key measures of profit have shown a favorable improvement for the quarter.

During the quarter, we recorded an interest income of Rs.21 crore and against this interest income, we recorded finance charges of Rs.10 crore, including Rs.2 crore towards our facility leases as per the new lease standard. Associated with the interest income, we recorded Rs.7 crore in income tax. To help you see the underlying business, the adjusted EBITDA margin for the quarter excluding interest income is at 34%, and the adjusted profit after tax margin excluding interest income and finance charges is at 19%. This compared to last year's fourth quarter, EBITDA was at 30% and adjusted profit after tax margin was at 18% respectively.

As many of you may know, Syngene follows the practice of hedging all foreign currency revenues. Currency movement during the quarter has been in line with the hedge rate resulting in a nominal loss of Rs.1 crore in the quarter. This reflects the difference between forward rates versus the prevailing spot rate. The hedge rate and the spot rate for the quarter were almost at the same level of Rs.73/USD. If I compare that with the last year, same quarter, we booked Rs.8 crore hedging loss.

With that, I will move to the full year performance for FY20. During FY20, revenues grew to Rs.2,094 crore, up 10% compared to Rs.1,901 crore in FY19. If you recall, we reported a one-time pass-through billing of Rs.40 crore during the first quarter of fiscal year 2019. Excluding the impact of the one-time pass-through billing, the revenue for FY20 grew at 13%.

In FY20, the Dedicated Centers constituted 31% of sales, Discovery constituted 32%, and the rest came from Development Services and Manufacturing. In FY19, Dedicated Centers constituted 32% of sales. Discovery constituted 29%, and the rest was from Development Services and Manufacturing. As you can clearly see, Discovery Services increased its share of revenues due to its strong growth during the year.

EBITDA for the year was at Rs.700 crore, up 14% compared to Rs.612 crore in FY19. Profit after tax excluding the exceptional gain of Rs.46 crore related to the insurance claim in Q2, was up by 10% to Rs.366 crore, compared to Rs.332 crore in FY19. EBITDA

and PAT margins for the full year, excluding the exceptional gain, were at 33% and 17.5% respectively.

The effective tax rate decreased to 18% in FY20 as compared to 20% in FY19. The decline in the effective tax rate is mainly due to the incremental depreciation impact in the tax books coming from the new units that have gone live during the year.

Now I will move to the balance sheet. The cash generated from operating activities was largely used to fund the ongoing capex program, resulting in a net cash position of Rs.362 crore as on 31st March, 2020 as compared to Rs.340 crore as on 31st March, 2019. So, we effectively self-funded our capex program during the year and increased our net cash balance in the process.

During FY20, we invested approximately US\$108 million in ongoing capex programs. Of this, US\$43 million pertains to the commercial API manufacturing facility, US\$28 million was invested in Discovery Services, US\$12 million in a Biologics manufacturing facility and the balance of US\$25 million in the Dedicated Centers and Development Services. With this capital infusion, our fixed assets currently stand at US\$451 million, including asset under construction of US\$33 million. Overall, we are on track to take our total asset base to US\$550 million by the end of this financial year. This is exactly as per the guidance given in the last few quarters.

We are pleased that our commercial API manufacturing plant at Mangalore completed the build phase of the program and commenced operations from March 2020. Total amount that is being invested in Mangalore plant is at around US\$75 million and this asset will be depreciated over an average life of 18-years. As pointed out earlier, the Mangalore API manufacturing plant will need to go through a process of further qualification, validation and gaining regulatory approvals before starting large scale manufacturing. We are very happy with the progress of the API plant execution so far and expect it to begin commercial operations from Q4 2021 and then build up to full capacity utilization anywhere between three to five years' time from

then. We will be in a position to give clearer guidance on the revenue projections closer to the date of commencement of the large-scale operations.

Before I end, let me give you some directions about our business in the current financial year. As outlined earlier, we continue to invest in future growth which comes with a mid to long-term ramp-up period. We believe that we are making the right investments to support our anticipated growth trajectory in the coming years. Our investing rationale from our core businesses of Dedicated Centers, Discovery Services and Development Services remains the same as before; We expect to deliver an asset turnover of at least 1x from our investments over the lifetime of the asset, with the revenue build-up by the end of second year from the investments. Our investments are calibrated towards this goal and we will continue to invest for growth in our core businesses in the future.

In Manufacturing businesses like API Manufacturing and Biologics, the revenue build-up period is likely to be longer than our core businesses. However, these businesses once fully occupied are expected to generate strong returns on investment. As you know, any investment in new facilities create some depreciation load on the P&L during the early phase of the asset life cycle until the facility reaches an optimum utilization or occupancy level. You may take note of that in your modelling.

With some impact coming from the partial shutdown in the month of April, we believe our Q1 revenues will be broadly at the same level as Q1 of last year. We will exercise our cost levers to control our discretionary expenditures during the year to soften the impact of flat revenues in Q1. Our tariff cost which is around 40% of our operating expense is expected to follow the revenue during the year and is by nature control level.

Due to travel restrictions around the world, we expect the travel costs to be lower and we will also pro-actively control and reduce overheads in our business. Having said that, safety measures undertaken as a part of our COVID-19 response will put some additional burden on our cost as we spend more on transportation, personal

protective equipment and in supporting multiple shifts to have less density in our laboratories and other facilities. As a result, we do expect around 25% drop in Q 1 FY21 profit versus last year.

Assuming the business comes back to the normal level by end of Q1, based on our current visibility of the order book, on a full year basis, we expect double-digit growth in revenues. We expect the PAT for full year FY21 to be a similar level to FY20. As I mentioned earlier, this guidance should be seen in context of what are clearly volatile conditions and if required, we will update the guidance during the year based on the evolving situation.

With a strong balance sheet, we are well placed to tide through the difficulties that come with the continuing COVID-19 crisis. Our cash position is strong and we will follow a stage gate approach in our spending and investments to ensure that we always maintain the required liquidity in the business during the year. The underlying business fundamentals remain very strong and it is our firm belief that we will return back to normal business performance as soon as the situation stabilizes in India and in our key markets of US, Europe and Japan.

That completes my commentary on the results. We can now open the floor for questions.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Nitin Gosar from Invesco. Please go ahead.

Nitin Gosar: First question is pertaining to current investment in the books which right now stands at around Rs.738 crore. Could you help us understand the avenues where money is parked - is it corporate deposit, mutual fund or liquid schemes?

Sibaji Biswas: So you are talking about the deposits that we have and are basically showing up in the balance sheet. So they are all put in a certificate of deposits in bank

and NBFCs and all of the institutions where we put money are all AAA-rated. So they are in very safe places.

Nitin Gosar: Anywhere we may not come under pressure in terms of redemption?

Sibaji Biswas: They are very high-quality securities and we do not expect that, but we always, as a practice and discipline, keep very close watch on that.

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

Prakash Agarwal: Sir, just wanted to understand the dollar term growth both for the quarter and for the year?

Sibaji Biswas: So the dollar term growth is close to 10% for the quarter and is close to 8% for the year.

Prakash Agarwal: And one more follow-up on the top line only. You clearly mentioned about the top line going forward directionally, asset turnover 1x. What was the capex as at say fiscal 19 start of the year and what is the addition over the last 12 months, if you could just rehash that?

Sibaji Biswas: So we ended the year at US\$451 million and we spent US\$108 million during the year.

Prakash Agarwal: So you said that the 1x asset turnover is with the revenue buildup from second year onwards?

Sibaji Biswas: Yes, as I said, it is on the core businesses of Discovery Services, Development Services and Dedicated Centers. 1x asset turnover for the lifetime of the asset, but after a revenue buildup phase up to two years.

Prakash Agarwal: I was asking for US\$108 million. What is the share for the Mangalore API capex?

Sibaji Biswas: Mangalore is US\$43 million out of US\$108 million.

Moderator: Thank you. The next question is from the line of Ashish Thavkar from Motilal Oswal. Please go ahead.

Ashish Thavkar: Sir, for your CMO business, given the kind of capex that we are incurring in our business, would we rely more on our own DMFs or those DMFs would be in-licensed?

Jonathan Hunt: We are a service provider to innovative companies. So the assets that we would develop and manufacture would be on behalf of somebody else. It is not a generics plan.

Ashish Thavkar: So just a follow-up on a similar line, between your research business and your CMO business, would your IRR or return on capital employed be significantly different?

Jonathan Hunt: I think the way we look at it is that we see the CMO business as being strategically complementary. It sits well alongside our other businesses and over time, we can integrate those so that we have end-to-end continuum of service that we can offer to clients. So, from research and discovery into development, into manufacturing, they fit strategically well together. I do not see the CMO business as being dilutive. I think it has a similar sort of prospective set of returns that we get within our existing businesses today on research services and development services. And I would point to the fact our margin performance compared to our peer group is certainly above average, sits round about the upper quartile on a global basis. So, we see it as a high-quality prospective business.

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

Chirag Dagli: If I look at your scientist strength addition, we have typically added between 450 to 500 people on an annual basis over the last five years. Now FY20, we

added about 240 to 250 people. Is there anything specific going on there you want to call out? And what is the outlook on this addition, say over the next three, four years?

Jonathan Hunt: I do not think anything we would call out. For many of our businesses, the addition of one scientist is one unit of growth. So I would expect to see over the long run, the addition of scientists to track exactly with the sort of revenue performance of those very people-centric businesses. So, our business today in research services is an intellectual capital business if you think about it, less capex and more brain power is the driver of it. So they should be growing in proportion. The manufacturing business as we evolve that over the next five years, of course, is more of an operating scale capex business. You build a plant and then you leverage on that. You do not need more people to operate the plant over time. So, it gives you a different shape to it. There is nothing I'd call out in particular. Sibaji very helpfully gave you I think some quite clear direction on guidance for the year on how to model. He gave you an expectation for the first quarter revenue and PAT and then revenue and PAT for the full year. I think if you interpolate between those you are going to be there or thereabouts in understanding the movement of the lines between revenue and profit and from that you can derive the sort of expectations on headcount growth. So, our current view is that the impact of COVID-19 will be largely contained for us in the first quarter and will reflect the fact that we suspended all operations for almost a month of the quarter. We are now back at work at least at 70% level. By the end of May, I hope or expect that we will be back almost at 100%. And then in the second and third quarter, provided nothing materially changes in the pandemic and the situation in India, it should play out that we are pretty much back at normal operations. So that gives you a good sense of how we are thinking about the year.

Moderator: Thank you. The next question is from the line of Vijesh Kasara from Mirae Asset. Please go ahead.

Vijesh Kasara: A couple of clarifications. So, in your opening comments, you mentioned that in Q4, we saw some of the clients actually accelerating the work. So did I hear that correctly and that led to a positive impact on the quarter?

Jonathan Hunt: Yes, tiny impact, but I thought it was worth calling out just because most people across industry are reporting that fourth quarter of the year was a little bit down because of the lockdown in India. Remember, of course, we are a very globalized business, most of our clients are not Indian and not in India, they are distributed around the world, including the US and Europe. And if you track the news, the impact of COVID-19 was just visible so much sooner particularly in Europe and therefore many of our clients were experiencing their version of lockdown at a much earlier point than India was. India thankfully has sort of seen cases of COVID-19 a little bit later and that has given the nation a bit more time to react and plan and take action. So there is nothing more than that. I would not overinterpret the comment.

Vijesh Kasara: The second clarification that I wanted is on the full year outlook. You mentioned that even after the decline or flattish growth that we will see on the top line for Q1, we will still close the year with a double-digit growth on the top line, is this what you said?

Jonathan Hunt: Correct. That is the current planning assumption, but as you know, I do not think there is a business in the world that would not put same caveat output on that which is that if the current situation continues through the year. But we are in the middle of a global pandemic and therefore everybody needs to be very clear, the planning assumptions change very rapidly. I am sure you along with many of our staff have seen a massive change to your working environment over the last six weeks from a pre-COVID world to a lockdown to mass work from home. So, it is a highly fluid situation. But what we are trying to indicate to you is that on the assumption that we are back at work and operating, which is where we are today, we can continue to do that and then on the order book for the second, third quarter, we have got pretty good visibility. On the fourth quarter we have got reasonable

visibility, but of course, our sales and commercial operations now are always the determinant of the fourth quarter. But if you add all of that up, relatively sort of impacted first quarter because we suspended operations and back to a more normal trend and then add up those two should mean that we do at least as well on top line revenue in FY21 as we did in FY20, maybe a little bit ahead of that, so double digit growth.

Vijesh Kasara: And did we give a PAT guidance as well for the year?

Jonathan Hunt: I think PAT for the full year should come in level with where we were in FY20. No decline, but we should be pretty much at the same level of profit generated during the course of this year.

Vijesh Kasara: So for this API plant where we are doing the validation studies at this point of time for the FDA approval or the regulatory approvals, do we expect any delays on that front because of this pandemic?

Jonathan Hunt: I do not think we have enough clarity on how that is going to evolve with global regulators, not just the FDA to know whether or not a delay is possible or likely. So, that I think is not clear. We have seen, for example, some client audits, some regulatory audits have switched seamlessly to virtual auditing, doing it through an offline assessment and also almost video tools - we had one this week. We have done a ISO qualification and validation in the last few weeks and they did that rather effectively through the combination of offline and video auditing. We need to see how that evolves. I do not think I know at this point whether or not we are likely to be impacted or not. But that is true I think for all companies. That said, the regulators have also got an obligation or an incentive. The world needs new manufacturing capacity. It needs science to be done. You are seeing an enormous effort globally with regulators and governments moving very quickly to address the pandemic. So I am sure that they will be equally looking at that and thinking how we can continue to operate effectively in a world that has got COVID-19. So it is not as if that is asymmetrical - all parties will be looking for an effective solution.

Moderator: Thank you. The next question is from the line of Neelam Punjabi from Perpetuity Ventures. Please go ahead.

Neelam Punjabi: First, could you please throw some light on your hedging policy? This is in context of the loss in other comprehensive income being reflected in your current quarter and FY20.

Sibaji Biswas: We generally are very conservative about our hedging policy. We hedge 100% one year out and for all long-term contracts we hedge for the full contract period. For the second and third year, we hedge partial. So, that is broadly how we progress on that. We do have a big hedge book and that is disclosed in annual report and other financial statements. Right now, the hedge book is ~US\$550 million.

Neelam Punjabi: And this practice you all have been doing this in the past as well and do you intend to do it in the future as well?

Sibaji Biswas: Yes, absolutely consistent and we are very disciplined about it. Our revenues are hence very predictable as long as order book is sustained. Sometimes, it does lead to MTM gain, sometimes it does lead to MTM losses. At the end of the day, they are all OCI and they go in the balance sheet, but we have a high level of predictability as far as the future years revenues are concerned.

Jonathan Hunt: Sibaji, just take a moment if you sort of step back, what you are seeing in this quarter is no change. Our hedging policy has been as it is for many-many years and therefore for us, there is no area of concern, no reason to change given the current sort of COVID environment. If that was the premise of the question and you were saying this a different way of operating, it has been a consistent policy for a number of years. It is proven to be very prudent and I think quite conservative.

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

Harith Ahamed: I was looking at the capital work in progress which has declined roughly Rs.260 crore when I compare with the December quarter. So, is this all coming because of the commercialization of the Mangalore facility? Trying to understand if Mangalore capex has moved from CWIP to gross block or if the decline is not coming from Mangalore, can you help us understand where the decline is coming from?

Sibaji Biswas: Yes, we capitalized the Mangalore plant towards the end of the quarter. So most of the decrease in CWIP is coming from capitalization of Mangalore plant. There are other facilities, but not significant enough to mention.

Harith Ahamed: So the Mangalore total capex of around US\$75 million now has moved entirely out of CWIP and is now part of the gross block?

Sibaji Biswas: Yes, most of it, a little bit is left because a plant has a tail always, there are some construction activities here and there going on, but most of the US\$75 million is capitalized in books now.

Moderator: Thank you. The next question is from the line of Mohnish Dave from Temasek Holdings. Please go ahead.

Mohnish Dave: Jonathan, Sibaji, you mentioned that revenue for FY21 was double-digit growth, PAT would be nearly flat. While we understand some of the Q1 impact because of negative operating leverage, could you elaborate a bit further on how much of this is because of, let us say, weak mix, how much of this is maybe because we are spending higher on the newly commissioned facilities? Also because of what you mentioned about higher PPE spend, transportation spend, operating multiple shifts? Could you just elaborate a little bit more on the margin compression expected in FY21?

Jonathan Hunt: I will make a couple of comments and then hand over to Sibaji. As you know, as a company, we have a policy of not giving specific earnings guidance. I

am doing this purely to be helpful in what is a pandemic situation. So, it is a deviation from our normal practice. I look forward to when we go back to our normal practice because that will mean we will have come out of pandemic. So, we are trying to be helpful by giving you guidance both for the quarter and also for the full year. Forgive me, if I do not break open the rest of the P&L to every line item. But with that said, I think your question captured some of the drivers. There are some increases in operating cost. We have moved to shift systems over the last month. We have effectively started our own transport company to get staff to work given that most public transport throughout the country has been suspended. So we are running a fleet of buses. We are doing that in a socially distanced way. So it is one person per two seats. That means you need just mathematically twice as many buses as you thought you needed and so on. We cannot really break those over into line by line items. But Sibaji, I wonder if you have any comments that you would give that would help people think about it.

Sibaji Biswas: Jonathan, you have covered it all on COVID-19 related expenses. I think the question also included Mangalore SEZ plant. And on that we already gave you some understanding of how much will be the depreciation impact. On top of depreciation impact, there will be also some operating expenses. And as we have guided that our commercial production will really start in Q4, so there will be some operating expenditures during the next three quarters, which will have a relatively small margin impact on our EBITDA and PAT during the year.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: Just a basic question for my understanding - in the Discovery and Dedicated Services which is a person-heavy business, what percentage of the work or what kind of work can be done from work from home and what kind of work needs access to laboratory equipments or certain high end computers which a person might not be able to have access to, when he works from home?

Jonathan Hunt: Good question. I think the simplest way to think about it, those are scientists doing research in labs. So, there are elements of that job - planning, thinking, strategizing, writing of reports that you could do on a work from home basis, and we are very happy to enable that for our staff. But for the core experiments, you need massively sophisticated equipment and you need to be in a lab to run the experiment. Syngene as a company, and India as a whole, in the last three or four weeks, has gone through the fastest, biggest adoption of work from home that anybody could ever have imagined. Certainly, we have moved very-very quickly. I would credit our IT department by having very good systems in place, the ability to operate seamlessly from home with cloud-based systems in a secure way. We went from, effectively four weeks ago where nobody in the company worked from home, to finding the vast majority of the staff set up and working from home. And I think some of that is going to be enduring and that may well be a good thing for being an employee in India and in Syngene. It will be a fantastic thing if we can make it work at a national level. India has more than enough challenges with traffic and commuting. For those of you that know Bangalore well, Bangalore traffic can be a thing of joy and great challenge. And if we can shift some people working from home, not every day and not full time, but I think we will probably end up with a mix, with some people working from home on one day, coming into the office the next as their work depends. So, a bit more flexibility, good things for work-life balance. Everything we can see about it means that people could be highly productive providing you get the technology right, and we have done a pretty good job on that. So a little bit more of a comment around the topic of your question.

Dheeresh Pathak: That was helpful, but just to get some sense in terms of quantification. So let us say if you are billing your clients for certain hours in a month for one particular scientist, what percentage of those hours does he spend on lab equipment which cannot be even done as work from home?

Jonathan Hunt: I get the premise of the question. I do not think we can break it down to that level because it would depend week-by-week, month-by-month, employee-

by-employee. So to give you a comprehensive answer, I will have to give you the work schedules of between 4,000 and 6,000 staff. Hopefully, there is enough in my answer to give you a direction which is we do not see that as an issue. Many of our relationships with our clients, the dedicated centers business and actually quite a lot that goes on Discovery Services is on FTE basis, it is not an hourly charged model, it is a full person per month, per quarter, per year model. Therefore, the staff, whether they are working in a lab, working from home, actually working as we have now done because we have put fully enabled digital Wi-Fi in various open spaces in the campus - If they want to grab a cup of coffee and go and sit on a bench in what is a beautiful working environment on our campus, they can still do it. So it is billable if it is productive and people can be productive independent of place. That is really what I am trying to lead you to. Does that make sense?

Dheeresh Pathak: Yes, makes sense. The depreciation for the API plant will start from next quarter or only when you do commercial sales which is the fourth quarter of FY20?

Sibaji Biswas: Yes, it actually started towards end of March. So there is a very small amount of depreciation also in the last year financials and it will start with full quarter impact from Q1 2021. The guidance that we gave actually incorporated the depreciation impact that is coming out of that.

Jonathan Hunt: But just on that, simple way for everybody to think about the API plant - we finished the building phase this year, just about all of this year will be about building its regulatory track record and building its qualification track record. So, you will see depreciation charge which will be a net drag on profitability through the year. In terms of it being a revenue driver, we will see some positive revenue this year, but not enough that is meaningful at a whole company level. I would be looking to model that revenue from next year and the year beyond. And that is in line with the comment Sibaji made around how long it takes to build momentum in something like a manufacturing asset. It is a little bit longer than you see in a lab-based business,

but then it has different dynamics to it. We still think it is a good investment to make. It will create value over the life cycle of the asset. But that is how I would be thinking about it from a modelling point of view.

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

Surya Patra: On the capex number, you have mentioned US\$75 million is the kind of spend so far on the Mangalore. I believe the earlier indicated number was around US\$100 million. So, is it fair to believe that US\$25 million balance would be done this year? Also, if you can share what is the amount of money that has already been invested in the Biologics side - both in the research facility as well as manufacturing one?

Jonathan Hunt: Sibaji, if you want to maybe make some comments, but as you are thinking about that, let us just summarize where we are up to. On US\$550 million program that was spread over multiple years, the last year of which is FY21, we expect to be fully invested with all US\$550 million by the end of this year. By the end of FY20, that was US\$451 million. So you got about US\$100 million of runway in this year to go in FY21. During the last 12 months, we added US\$108 million of that capex. That gives you the preceding year's balance if you were to back calculate. And then the API was US\$43 million in the last 12 months; Discovery Services US\$28 million; Biologics US\$12 million, the remainder was spread across others. Would you make any other comments, Sibaji, on the programs?

Sibaji Biswas: Yes. I think the US\$100 million comment from the past was the total money we estimated for the fully expanded plan. The US\$75 million corresponds to the current level of execution that we have targeted by FY21. But there are plans in a later stage to expand it further. So US\$75 million holds, nothing has changed on that.

Surya Patra: On Biologics front, on both - the research facility as well as the manufacturing one, what is the money so far that has been invested cumulatively?

Sibaji Biswas: So if you look at our gross block, close to 10% of that has been spent in Biologics.

Surya Patra: Secondly, Jonathan, in your presentation or press release, you have already mentioned that there are several projects which are currently going on, on the Discovery Biologics front and there are validation of new biological targets currently happening at the research labs. Also, you mentioned that, it is relating to the CAR-T therapy. So, if you can help me understand that are these based on some customers request or is it a capability building kind of initiative?

Jonathan Hunt: It is a bit of both, but remember, we are a pure play services business. So, we do not do any work other than for clients. Always if we are doing a project, we are doing it with somebody else, for somebody else and therefore, they will have commissioned that work. So we are doing that for clients. It is not that we are building our own pipeline.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Ms. Jill Deviprasad for closing comments.

Jill Deviprasad: Thank you, everyone, for joining today's call. Hope we answered all your queries satisfactorily. If any further questions remain, please do get in touch with me. Have a good day and stay safe.

Sibaji Biswas: Thank you.

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

About Syngene

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