



“Syngene International Ltd. Second Quarter-Ended September
2022 Financial Results Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Syngene International Second Quarter-ended September 2022 Financial Results Conference Call. As a reminder, all participant lines will be in 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. Avantika Mishra from EY. Thank you. And over to you.

Avantika Mishra: Thank you, Yashashri, and good afternoon, everyone. Thank you for joining us on this call to discuss Syngene's Q2 FY'23 Financial and Business Performance.

From the management side, we have Mr. Jonathan Hunt – M.D. and Chief Executive Officer; Mr. Sibaji Biswas - Chief Financial Officer, and Dr. Mahesh Bhalgat - Chief Operating Officer.

Post opening remarks from the management side, we will open the line for Q&A, and we'll be happy to answer any questions you may have.

Before we begin, I would like to caution that comments made during this conference call today will contain certain forward-looking statements and must be viewed in relation to the risks pertaining to the business. The Safe Harbor clause indicated in the Investor Presentation also applies to this conference call. The replay of this call will be available for the next few days and the transcript will be subsequently made available.

With this, I now hand over the call to Mr. Jonathan Hunt. Thank you and over to you, sir.

Jonathan Hunt: Thank you and thank you for those joining us on the call today to discuss Syngene's performance in the second quarter and first half of the year.

I'll start by commenting on the Headline Numbers, then move to some of the Operational and Strategic Highlights for the Quarter and for the Year. Sibaji will provide a more detailed insight into the Financials in his Remarks.

I think like all businesses, we're keeping a keen eye on the broader economic environment, including concerns over global economic growth, potential for ongoing supply disruption, rising energy cost or geopolitics. I think despite those concerns, I really would reiterate that the second quarter and the first half of the year has been a positive demand environment for Syngene. We continue to see good demand in the main client markets in the US and Europe that has helped us deliver strong revenue growth and put us on track to meet our guidance for the rest of the year.

So looking at the specifics of the second quarter, the quarter was characterized by positive performances across all four divisions. Revenue from operations grew 26% to Rs.768 crores over the corresponding quarter last year. Reported EBITDA was up 22% to Rs.232 crores. Profit after tax (PAT) before an exceptional item was up 11% over the corresponding quarter to Rs.102

crores. And the exceptional item was a one-time downward adjustment of Rs.25 crores in the second quarter of last year on account of the government's decision during that quarter to cap the Services Export Incentive Scheme (SEIS) Scheme for research and development services at a Rs.5 crores cap for the financial year.

The performance during the second quarter was robust and came on the back of a strong first quarter. You may recall that we upgraded our financial guidance for the year last quarter, and against this we've delivered the first half in line with these higher expectations, and I think this positions us well for the full year.

Just turning now to the operating divisions, start with discovery services. Overall performance during the quarter for discovery services was good. We're seeing a healthy demand environment as clients continue to make up ground they lost during the pandemic as well as bring new projects forward. This positive demand was most pronounced in discovery chemistry, where we saw some of the strongest demand we've seen in recent quarters. Our second campus in Hyderabad played an increasingly important role in discovery chemistry operations, now grown to over 600 scientists and we've got more expansion plans there in Hyderabad.

During the quarter, the proprietary integrated drug discovery platform, SynVent continued to gain traction. That portfolio currently stands at 18 integrated programs. I think we continue to see good demand for that sort of fully integrated research approach.

In dedicated centers, as part of the partnership with BMS, we've fully commissioned and now operationalized a new state-of-the-art translational medicine laboratory to help BMS accelerate the discovery of new therapies.

Growth in our development services business was predominantly from repeat orders from existing clients, as well as an increase in the number of collaborations with emerging biopharma companies. In the last two and a half years, while we've sustained the collaborations, we have with 15 of the top 20 biopharma companies globally, our partnerships with clients in that small and medium sized biotech sector continues to accelerate.

So, now just looking at the manufacturing side of the business over the past few years, I think we've made some important investments in establishing our biologics manufacturing capacity. This groundwork really paved the way for the 10-year agreement we signed with Zoetis in the first quarter, and that's to manufacture the drug substance for the Librela, that's a monoclonal antibody for use in animal health.

Well, lots of work is ongoing. The key progress indicators in the second quarter with the completion of the process performance qualification batches for commercial manufacturing, and of course, the preparations for the expected regulatory inspections. Subject to the successful completion of the required regulatory audits, we anticipate that manufacturing of the drug

substance is likely to begin in the fourth quarter of this financial year. And therefore, that means it becomes a factor for modeling of revenue from the start of the next financial year. I'll leave it to Sibaji to comment further on that if needed.

And finally, just to preempt a question that comes up each quarter, our small molecule manufacturing facility in Mangalore is on track to obtain the key regulatory approvals around the mid of the next financial year.

Beyond the division and operational performances, just a brief comment on CAPEX. During the first half, we invested close to US\$30 million out of the total US\$100 million that we plan for the year. Half of that capex has gone into research services, 30% into biologics, and the remainder into common infrastructure, safety-related improvements, replacement of old equipments, etc., digitization, and are split to a reasonable indicator of what we'd expect for the full year.

So let me summarize before I hand over to Sibaji. We've made good progress on our strategic priorities over the first half. We started the year with strong revenue momentum, and this has continued into the second quarter leaves us in a good position with our first half performance. The first quarter performance with underlying revenue from operations growth of around 32% prompted us to upgrade our guidance for the full year and the performance of the second quarter puts us solidly on track to achieve that upgraded revenue guidance of high teens for the year.

With that, let me hand over to Sibaji.

Sibaji Biswas:

Thank you, Jonathan, and a very good afternoon to all of you. Let me start with revenue performance, then take you through margin, profitability and CAPEX investments for the company. I'll give you a little color on the impact of currencies, as it benefited us in the quarter, and I'll also cover our current view on outlook for the full year FY'23, which is both positive and is also reflective of the upgraded guidance given last quarter.

With this context, I'll now cover the Q2 performance. Please note that you will hear me referring to underlying performance impacts of my comments. Just to be clear, this is performance excluding the impact of Remdesivir manufacturing. We recorded high sales of Remdesivir during the first half of FY'22, with most of it in the first quarter. As no Remdesivir sales have been recorded in the first half of FY'23, we think it is helpful to exclude Remdesivir from both periods to illustrate the underlying performance of the ongoing business.

As you heard from Jonathan, reported revenue from operations for the second quarter grew by 26% versus the same quarter last year. Underlying revenue growth that is excluding Remdesivir was stronger at around 31%, which we believe is a very good performance. As a reminder, the first quarter also delivered a strong underlying revenue growth of around 32%. At constant exchange rate, our underlying growth for the quarter, net of Remdesivir was around 22%. So

irrespective of which measure of revenue growth is used, we see a very positive momentum in the business.

I will now move to EBITDA for the quarter. EBITDA from operations, that is excluding interest income for the quarter came in at Rs.217 crores compared to Rs.177 crores in the same quarter last year, that's up by around 22%. The reported EBITDA margin for the quarter was at 29.6% versus 30.5% of last year, and the operating EBITDA margin, which is without other income was at 28.2% for the quarter compared to 29.1% last year. The revenue for the quarter was hedged at Rs.78 per US dollar. The depreciation of the rupee versus US dollar strengthened the top line without commensurate benefit on the bottom line because we book hedge losses as a part of expenses. Our margin guidance for the year was given at the hedge exchange rate. The optics of the EBITDA margin change due to the average realized rate being around Rs.80 per US dollar in the second quarter, which is reflected in the top line. Normalized for the revenue at the hedge rate for both the years, the operating EBITDA margin for the quarter was at 28.9% as compared to 28.6% in the same quarter last year.

I will now cover other cost line items within the P&L. Material costs for the quarter increased by 19% year-on-year. As a percentage of revenue from operations, it was at 25.9% compared to 27.5% last year. The last year being high due to raw materials for Remdesivir. The current material cost is below the 27% guidance shared previously, and this will move up to the guidance level with the increasing share of manufacturing in our revenue.

During the quarter, staff cost increased by 15% year-on-year, and was at 28.4% of revenue from operations as compared to 31% in the second quarter of last year. The year-on-year increase is in line with the increase in head count and reflects salary increases and changes in the mix of the employee base.

Our direct cost which primarily includes power and utility costs increased 39% year-on-year and is now at 3.7% of the revenue from operations for the quarter compared to 3.4% for the corresponding period in the previous year. The increase is mainly on account of higher fuel prices for natural gas used for steam generation and high speed diesel used for power backup. In the current environment, we are seeing the benefit of our investments in renewable energy companies which not only de-risks the energy supply, but also reduces carbon emissions and consequently impact on the environment. Despite an increase in consumption due to expansion of facilities and increasing power and fuel tariffs, these investments provide us a mechanism to control cost increases.

Other expenses which includes travel, conveyance, repairs, and maintenance, digitization, automation and selling expenses increased by 32% year-on-year. This increase is in line with expectation and guidance given at the beginning of the year. As we came out of pandemic restrictions from Q4 last year, global travel and sales execution activities have picked up nearing the pre-pandemic levels. This along with other operating investments including expansion of

commercial team, acceleration of digitization and automation projects across the business also led to higher costs on a year-on-year basis.

Hedge losses during the quarter was Rs.19 crores reflecting the difference between average spot rate during the quarter to the hedge rate. This is compared to the hedge gain of Rs.10 crores in Q2 of the previous year.

Other income for the period increased from Rs.12.9 crores to Rs.15.4 crores, an increase of 20% on the back of increasing yield on investments and fixed deposits.

Overall reported EBITDA for the quarter was up by 22% year-on-year to Rs.232 crores compared to Rs.190 crores for the same period last year. Underlying EBITDA growth broadly tracked the top line growth reflecting the operating leverage in the business.

Depreciation and amortization for the period was at Rs.90 crores compared to Rs.76 crores in the same period last year. This increase of 18% on a year-on-year basis is mainly owing to the new investments in the last 12-months.

The finance cost increased from Rs.1.2 crores to Rs.11.7 crores. Here, we recognize the interest component on **newly leased** facilities as per the accounting standard AS 16 in addition to increase in interest rate on borrowings and translation losses on FOREX loans due to rupee depreciation. You should note that a large part of our loan is covered through interest rate swap, and hence does not get impacted by movement in interest rates. But it's still impacted from the translation losses on the currency.

Profit before tax increased by 15% year-on-year, the lower growth as compared to EBITDA and EBIT is on account of higher interest rates and currency translation losses.

The effective tax rate for the quarter was around 21.5% compared to 18.5% during the same period last year. You will remember that I have previously told you that there will be a gradual increase in tax rate as some of our units come out of the SEZ tax benefits period, and increasing share of business is coming from locations not enjoying the SEZ tax benefits.

Profit after tax before exceptional items stood at Rs.102 crores as compared to Rs.92 crores last year, and that's a growth of around 11%.

Now moving to results for the half year, revenue from operations grew by 17% including the impact of Remdesivir in the base. Underlying revenue growth was 32% excluding Remdesivir, and on constant currency basis, underlying revenue growth for **the first half** was at 23%.

EBITDA for the period grew at 14% year-on-year and underlying EBITDA from operations grew at 31% in line with underlying revenue growth, reflecting a strong first half of the year.

Material cost adjusted for Remdesivir impact in the base tracked the revenue growth. Staff cost increased by 14% in line with headcount growth. Other direct costs and other expenses increased by 48% and 38% respectively, driven by inflationary pressures, resumption of activities post-pandemic and other operating investments as explained earlier.

EBITDA margin from operations was around 28%, which was 90 basis points lower than last year due to the rupee depreciation effect on the top line as explained previously. Normalizing the revenue at hedge rate for the respective years, the EBITDA margin for the first half was similar to that of the previous year.

CAPEX for the first six months of the year was around US\$30 million. Another 50% of the CAPEX guidance of US\$100 million has been put into execution and the same will be reflected in the books over the next few quarters.

Based on the first half results, and the overall trajectory of the business, we confirm the guidance for the full year of high teens revenue growth and EBITDA margin of around 30%. PAT growth as guided before is expected to be in single digit, due to increase in effective tax rate and baseline effect of Remdesivir in FY'22.

With this, I complete my commentary, and will hand back to the moderator for questions. Thank you.

Moderator:

Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use the handset while asking the question. In order to ensure that management is able to answer all queries, kindly restrict your questions two at a time. We will wait for a moment while the question queue assembles. We have the first question from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal:

Hi, Jonathan. Hi, Sibaji and Hi everyone. Congratulations on the extremely robust set of numbers. Two questions on my side and probably one small suggestion. The first is on the dedicated business. So you know over the last six, eight months, there's been a lot of news flow around the international innovators coming and setting up their GCCs in India, I mean, yesterday there's something around Baxter, Herbalife has gone back and set its own center, and Pfizer, Merck, so on and so forth in Chennai, in Bangalore, and in Ahmedabad. While it does put out a great sort of a story for India, I'm not sure whether it's really a positive or a negative development from a Syngene perspective, and how are you seeing this?

Jonathan Hunt:

Super good question. I'm going to give you a specific. You mentioned Baxter. The announcement they made earlier this week or last week, it's not new news, they've entered India for a considerable amount of time. And that's actually our relationship with them is with that

center. That's our partner is part of their global network, including their India operation. So we're deeply sort of operationally integrated and used to working with that. So I get the question. I don't really see as an inflection point or an either/or. Some clients often if they've got big operational businesses in India already and they're quite globalized, are very comfortable in setting up their centers, it doesn't stop them from working with us on other aspects of our business. Others like that, having a strong local partner that really operates well at scale is beneficial to them. In the scale we're at, I'm sure we find that little easier to recruit and operate in India than many standalone startups would. So, I'm not particularly disturbed by and actually we're just about every company that you mentioned, the fact they have a center in India actually just makes them more comfortable dealing in this part of the world, and they know us well, and we operate well with them. Does that make sense?

Tarang Agrawal:

Yes, it does. The second, pertaining to your discovery and development business, and the way we are seeing global trends, a lot of emerging biopharma companies have been in it. And that's basically one of the biggest reasons why businesses like yours are there helping them come up with cut throat innovation, but at the same time, we're also seeing funding for a lot of these businesses drying up, given the macros that the world is facing. So, from your perspective, typically, while onboarding a client or getting into an engagement, how do you track the credit risk that's associated because your relationship would perhaps continue for multiple years, so, if you could just explain us that piece?

Jonathan Hunt:

I'll now make a general comment, and I'll look to Sibaji to talk about the specific approach we take to credit risk. Counterintuitively, the tightening of the funding environment, particularly in the US biotech, and it wouldn't be obvious has driven I think a positive for us. Those companies that are sitting on multiple years of cash, but are concerned about their cash burn rate, and their ability to refinance at some future milestone if they've got cash. And a lot that are like that, that are already well funded. Of course, remember that the observation you're making is, we've been through two or three years of a very, very healthy funding environment for biotechs. And that market now is slowed and dipped. Those that took funding during those boom years are sitting on cash. And they now want to find out how can they make that last longer and deliver all of their science. Well, one of the obvious things they can do is, partner with a business like Syngene, that offer, that offers a very good operating cost arbitrage. And for many of them, they could spend their money in the US or they could triple the runway of their cash burn and come and partner with us. And they wouldn't notice a difference in the quality of science and the quality of innovation because we operate right at those global standards. But that's a sort of more macro strategic comment. And then Sibaji, just on the specifics, I mean, we follow the normal, rigorous protocols, any business would be checking the credit worthiness of your counterparties.

Sibaji Biswas:

Thanks Jonathan. Hi Tarang, speaking particularly about how we approach this issue, we do engage with emerging biopharma and biotech. However, we do have a very well structured credit policy and a credit approach. We have multiple categories, based on the size of the company, market cap, profitability, and whatever information that we can gather for those companies. And

we do have a risk rating at our end, and for customers who are based on credit rating, we do ask for advances. So I think our credit policy was structured and very robust to handle a situation like that. Over the last six, eight months, we haven't really seen any impact. In fact, we have been getting receivables as normal, which is basically saying that our credit policy is working, and it's very effective. So while I understand your a question, at this point, no concern for me.

Jonathan Hunt:

The only other comment I'd say is the history has been a very positive one. It's not an area that we've had a lot of concern, but that doesn't mean to say, you don't remain sensible and vigilant.

Tarang Agrawal:

Just a last, the qualitative commentary on each of the businesses is helpful, and it helps us get some sense. But going forward, would it be possible to give us some more say detailed quantitative numbers across say, maybe revenue segmentation or something else, I mean, say how many molecules you've got in phase one, two or three without naming the customers or, but some more maybe detailed numbers would probably be helpful for us to get a better handle on the business? Otherwise, the disclosures are great. So this is just the last suggestion. Thank you.

Jonathan Hunt:

I am always happy to receive helpful suggestions. Do talk to the IR team about things that you think would be helpful. By the way, that's not an irrevocable commitment that everything you suggest is something that we're automatically going to be able to do, but very happy to have the dialogue. I would actually go back and if you look at the extent and breadth of our disclosures particularly on these quarterly calls, compare with where we are today and, where we were say five years ago, qualitatively, I think you get an awful lot more information than you used to. And we're trying very hard to sort of paint a narrative without necessarily breaking down the inner workings of all of our P&L. You get our P&L on the basis that management runs it too. So, there's an alignment there. But very happy always to give you a comment. Do talk to the IR team if you've got good suggestion.

Moderator:

Reminder to participants to ask a question may press * and 1 on their touchtone telephone. We have a next question from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra:

Congratulations for the great set of numbers. My first question is about the incremental collaboration, Jonathan, that you have mentioned in your opening remark, leveraging the advantage of the SynVent. So if you can elaborate a bit, You have said some number also that multiple collaboration that has been added using this SynVent platform. So if you can elaborate number of customers or the projects that has been added during the quarter or let's say even last one year period, and whether this European situation, what currently that we are witnessing that is bringing in positive things wise to our business, or how is it that impacting us?

Jonathan Hunt:

Say a bit more just on that, because what do you mean by the European situation?

Surya Patra:

So like it could bring two impact right to us. See, possibly it could bring incremental manufacturing opportunity, that is one and possibly help us filling our CMO facility quicker,

that is one. And on the other hand, so since there are war issues going on and the clinical trials could be deferred, and hence the possible near term impact would be there negatively to us. So

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Jonathan Hunt:

Let's come back to that. I'll talk a little bit about SynVent. I'm not sure I understand fully the question, but it's a bit you said, did I hear you correctly, this European situation, I don't know what you're referring to, that's why I'm struggling with the question.

Surya Patra:

I'm saying practically there are energy challenges, there are war situations, impacting the clinical trials and all that. So hence, possibly the supplies what we would be making the development quantities and all that.

Jonathan Hunt:

Okay, now, I get it. thank you. So geopolitics, basically, given that I spend a fair proportion of my time living in Europe working there. I wouldn't often characterize it as you just did. I'm not sure that we are seeing operational impacts in the industry, clinical trials not happening. Remember, the situations in Ukraine, clearly it's a travesty for the people of Ukraine and I wouldn't comment more on the politics of it. But I don't think it is flooding through the rest of Europe and the other, I think European Union 850 million people falling within that as a trading block. So I don't see the operational impact. Go back to saying that, no, but that I am happy to talk about. So let me just make sure that we all understand what it is. One of the things that we've seen as our industry that CRO services, particularly businesses like Syngene over the last 20, 30 years has matured, increased sophistication of what we do. We become actually increasingly like our clients if our clients are the world's leading life sciences, innovation companies. And what I mean by that is if you observed us by capability, by infrastructure, by the processes we follow, by the way we go about doing science, we now sit, I think at a par with the operations and the innovation that you'd see inside the leading companies, around capabilities. That's created I think a second market opportunity. The primary one for us is functional services, where we do something like chemistry or biology, we insert that into the value chain of our clients and they do the other things around it, so they do that step before and the step after that we are a component in their value chain. SynVent is really us offering the fully integrated value chain as a service on demand to clients that want to do it, either because they want to put an additional project outside of their own operations, let's say, they've got more good ideas than they've got capacity, they'll do some of those projects in their own labs, but they will still want to put other ones outside, you can offer that fully integrated as a service. Or you've got others that just wanted to maybe accelerate, or they've got a virtualized business model, they never actually intend while investing in innovation to own the infrastructure. So, for that we offer a turnkey solution. So that's the essence of SynVent is that it's a fully integrated drug hunting, drug discovery, drug development platform, series of interlinked interconnected services. And then the number that I mentioned was that we were up to 18 projects. The baseline of that, of course, would be effectively zero, from when we launched that whole service to the market. I have to think two, three years ago, around that timeframe. And we continue to add projects to it and we see good demand. Does that help, at least that paints a picture of how it differs from Syngene and SynVent.

Think of Syngene as component verticalized services and think of SynVent as the same things flip through 90 degrees., and therefore horizontally integrated as a value stream.

Surya Patra:

Sure. So, this is really helpful. One additional extended thing here is that I'm just trying to understand, you do mention also the universities that you have tied up with. So here I am trying to understand whether these associations with universities are for sourcing projects or business opportunities, or it is to build our capabilities with the help of university support?

Jonathan Hunt:

I think it's all of those. It's an integrated one and sources of talent as well. I mean we like to have a close and symbiotic relationship with many of the leading universities in India. I'd love every chemistry professor and every biology professor to know that the brightest and the best in their class are very welcome to come and start their scientific career at Syngene and if they know us and we know them, there's more chance of that happening. The other bit is being a super smart academic scientist, adds value to super smart for want of the better phrase, industrial scientists and there's a good relationship between them. So again we create value intellectually at that interface as well as there may well be sources of good ideas for our clients, innovation, blue sky research. So it's a connected sort of community and we intend to play an active part of that in India which is why we've increased the number of universities we have relationships with and we welcome that. It's a good source of talent, good source of innovation.

Surya Patra:

Just last one clarification about the tax rate what Sibaji sir has mentioned. Do you say that okay now whatever tax rate we are currently witnessing for the quarter, it is kind of a likely rate for future also?

Sibaji Biswas:

Surya, what I said is that the effective tax rate for this current financial year is around 21.5% and over the next three to five years if we gradually move up to 25% that's the kind of cap we are looking forward to. So that's how we can model a gradual increase. I would have to clarify one thing, this does not have a cash flow impact, because we have had enough advance tax paid in terms of MAT for the next three to four years till the time it reaches to FY'25, '26 to kind of adjust against the opening tax rate that we have. So it's more about the P&L impact. From FY'25, '26 we can gradually then assume that the cash tax payout will also start going closer to 25%. That's how I can model it, that's just the modeling input, but from a P&L perspective, ETR has been 21.5%, gradually move up to 25%.

Moderator:

Our next question is from the line of Harith Ahamed from Spark Capital. Please go ahead.

Harith Ahamed:

Good afternoon..Thanks for the opportunity. On the Zoetis contract, you mentioned that there's some qualification batches supplied during the quarter. So, qualitatively, can you give some color on whether this was a big contributor to the overall revenues for the quarter and whether it was a major contribution to our manufacturing services revenues and then do you expect this to sustain ?

- Jonathan Hunt:** Quick answer - No. That's the shortest answer I think I've ever given on a call. No, it wasn't. If you think the numbers for the quarter were good, they came in pretty much upbeat versus market consensus on each line of the P&L, it isn't Zoetis that's driving, it's the rest of the business. Zoetis really won't come online until next year. So you should be adjusting your models to think about that as an engine coming onstream from the first quarter of next year. Between now and then there's bits and bytes in this qualification work and there's the series of regulatory inspections to be cleared. But from a capital markets revenue point of view, dive it into the first of April and not before that.
- Sibaji Biswas:** Just to add to that, we have indicated that we are seeing good demand situation in biologics and we also said in our last call the commercial manufacturing will start sometime in last quarter of this financial year which is what Jonathan is also saying actually revenue from commercial manufacturing will start showing up fully on the next financial year. Till that we may have some small revenue contribution from trial batches, but nothing significant in the overall scheme of things.
- Harith Ahamed:** This product if I've understood correctly has been launched in Europe. So any takeaways from the performance there and the ramp up there so far in terms of how they can be in the US?
- Jonathan Hunt:** I'll give you a qualitative answer but that's a much better question to put to Zoetis, that's the bread and butter of their business. It's a marquee product in their industry. It's a real source of innovation. Everything I see tells me it's getting good traction in the market. But really we're at a different point in the supply chain to be the best people to comment on market performance. That's an issue for them really to comment on. But it looks to be a very successful product and if you read the scientific data it looks good.
- Harith Ahamed:** In terms of inspection timelines by the FDA, just trying to understand if this is likely to happen in the second half of '23?
- Jonathan Hunt:** Yes, second half of the year is my expectation but I don't drive the FDA schedule, they'll do and we'll let you know the outcome when we know the outcome. But I think you've got a fairly clear sort of framework. Zoetis wasn't the cause of the positive performance in the second quarter and the first quarter of this year, it's the rest of the business that's driving that. Between now and the end of this financial year, our expectation is to go through and hopefully complete successfully the various regulatory inspections that are needed. Assuming that happens, then we'll be into starting commercial scale manufacturing in the fourth quarter of this year which should give how long it takes to do a batch, should start to become a revenue factor from the first quarter. So I think there's a sequential story and you've got all the moving parts.
- Moderator:** We have our next question from the line of Mehul Sheth from Axis Capital. Please go ahead.

- Mehul Sheth:** Thank you for the opportunity. First question is on your visibility towards order book. So, are you getting the incremental order enquiries like the market from US or the Europe side given this China plus one strategy? So, are you getting any incremental enquiry?
- Jonathan Hunt:** I think that's a sort of a general structural trend, but I'm not sure I can pass it out. It depends on what your baseline is. The world is just starting to come out of a pandemic. So if your question is phrased as, are you seeing a change from where we were a year ago, two years ago? I think the answer is going to be, yes, for everything and everybody because the world's coming out a lock down. What I tried to get to in my comments was that in our industry, remember, for most, nearly all of our customers, economically something that's absolutely central to their business models is creating Innovation that's patentable and those patents are time-bound monopolies effectively, it's the definition of a patent and that leaves you with an industry, that's speed and speed through discovery into development to the market is absolutely vital. So if you've just been through a two-year pandemic period where things gone more slowly being delayed, there's a real economic spur on the client side to try and make up for lost ground. I think that's one of the reasons we're seeing quite a buoyant demand market around the world as people are back to work, not only are they doing what they weren't doing because they weren't at work, but they're trying to catch up on things that got delayed. Hopefully that gives you enough of a sense, certainly gives you the tonality that we would have experienced in the first half of the year a positive demand environment. I look forward to reporting on how that plays out in the rest of the year.
- Mehul Sheth:** One question is on Mangalore plant. You are expecting a commissioning or a commercialization in the second half next year. But there will be some incremental cost or operating cost that will be currently there you must be incurring. So what will be the impact of that incremental cost related to this plant on your EBITDA, if you can quantify the quarterly run rate or something?
- Jonathan Hunt:** I'm looking at Sibaji whether you have a comment. But my headline comment would be in the business of our size with a number of subunits operating units, we wouldn't pass out the EBITDA impact of a particular plant or a particular supply point. Largely because I don't think it would be helpful. We wrap all of that up in our overall guidance and the guidance we gave for the year is EBITDA margins of around 30% for the full year. We're a little bit below that in the second quarter which implies a few hundred basis points of uplifting in the rest of the year, but no big deal really, I think around 30% is stable.
- Sibaji Biswas:** As we mentioned before, the margin is a bit behind because of the rupee depreciation benefit that we're getting in on the top line. If you adjust for that, we are almost close to the guidance and hopefully when we look at the full year numbers will be beyond guidance. But, yes, the expenses of Mangalore plant is very much built in on overall expenses, but we do not like to call out the exact numbers over there.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to Ms. Avantika Mishra from EY for closing comments. Over to you.

Avantika Mishra: Thank you, everyone, for joining today's call. I hope we have answered your questions. If there are any further queries, please do get in touch with our team and we will be happy to get back to you. Have a good day and thank you once again.

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