



# “Syngene International Q3 FY'25 Earnings Conference Call”

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Putting Science to Work

*Syngene International  
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**Moderator:** Ladies and gentlemen, good day and welcome to Syngene International's 3rd Quarter FY'2025 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. Nandini Agarwal. Thank you and over to you.

**Nandini Agarwal:** Good evening, everyone. Thank you for joining us on this call to discuss Syngene's 3<sup>rd</sup> Quarter and Nine Months Results for FY'2025.

To discuss the Financial and Business Performance for the period, we have on this call today, Mr. Jonathan Hunt, Syngene's Managing Director and Chief Executive Officer and Mr. Deepak Jain, Chief Financial Officer.

After the opening remarks, Jonathan and Deepak will be happy to answer any questions you may have.

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

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

**Jonathan Hunt:** Thank you and thank you to everybody for joining the call today.

As always, my remarks will cover an "Overview of the Key Financials and Market Trends for the Quarter" before getting into any "Operational Strategic Highlights," I will then hand over to "Deepak to Provide a More Detailed Insight into the Financials in his Remarks both for the Quarter and for the First Nine Months of the Year."

We are pleased with the performance in the 3rd Quarter, return to growth and I think it sets us on the right trajectory for the rest of the financial year. Reported revenue from operations for the quarter came in at Rs.944 crores, up 11%. We benefited from a favorable exchange rate between the US dollar and the rupee that resulted in approximately an 8% increase in revenue from operations in constant currency terms, saw 3% FX benefit.

Looking at the growth sequentially:

Revenue from operations increased by 6%. I think that's an indicator that things are moving in the right direction. Operating EBITDA was up 23% to Rs.284 crores. So, we delivered good operating leverage with the operating EBITDA margin increasing by around 300 basis points. So, that came in as 30.1% for the quarter.

Reported profit after tax after exceptional items for the quarter was up 18% year-on-year to Rs.131 crores. This reflects good underlying performance and despite the tax-related one-off that you will hear more from Deepak shortly. So, during the quarter there were signs, I think, of stabilization in the US biotech funding environment. That said, the market didn't recover as quickly as we'd anticipated when we set our guidance at the beginning of the year. So, while we called the return to growth in the direction of travel, I think correctly the timing feels like 8, 12 weeks off. So, we will cover more of that when we comment on expectations for the full year. But back to growth in the quarter, directionally in the right way took a little bit longer in the year than I anticipated when I first set the guidance at the beginning of the year.

Discovery Services contributed to the growth in revenue in the quarter as well, marked by collaborations with mid and large pharma companies on pilot projects. Last quarter, we had quite a discussion around biopharma companies looking for alternatives to China as they rebalance their supply chains, the partnering through pilot projects and they're using these as a way to select their longer-term partners. And during the quarter the initial pilots converted through for us into longer-term contracts and of course, they then have the opportunity to contribute to growth next year.

The performance of development and manufacturing services remain steady, driven by biologics with repeat orders from existing customers and also through new collaborations on integrated projects that cover anything from drug development to clinical stage manufacturing.

To sort of conclude, performance in Q3 was positive with a return to growth, good momentum across the business divisions that put us on the right track for the next quarter, we made good progress on our strategic priorities, and I think we are moving in the right direction to gain in that longer-term, China Plus One trend.

So, with that, let me hand over to "Deepak and he will give you More Detail on the Financials."

**Deepak Jain:**

Thank you, Jonathan. Good evening, everyone.

Let me walk you through our "3rd Quarter Performance, followed by a Review of the Nine Month Results and an Update on our Outlook for the Fiscal."

As we had indicated in the year, we expect growth momentum to build in the second half of the year and Q3 marks the return to growth on a year-on-year basis. As highlighted by Jonathan, growth during the quarter was driven by performance across all divisions.

Operating EBITDA margins came at about 30.1% for the quarter compared to 27.5% in the previous quarter and 27.1% in the same quarter last year. Operating EBITDA margins benefited from lower material costs during the quarter which as a percentage of revenue from operations declined from 27.8% to 25.2% in the 3rd Quarter. This was driven by a change in the business mix and some efficiency gains.

Material costs are likely to be in the range of 26% to 28% as we had guided earlier.

Staff cost increased by 14% year-on-year, primarily driven by salary increments and recruitment in skill areas needed to build capabilities in the business.

With a focus on deployment of energy efficiency measures, renewable energy now comprises 96% of our total energy consumption.

Other direct costs remain flat during the quarter as compared to the same quarter last year.

Moving on to other operating costs, which increased by 18% year-on-year, largely driven by investments in digital initiatives, maintenance and upkeep of expanded facilities and infrastructure. This broadly remains the same as percentage of revenue through this year at around 13%.

Turning now to Treasury and our Hedging Performance. Revenue for the quarter was hedged at around 85.3 per dollar. The average spot rate during the quarter was lower at about 84.8, resulting in a hedge gain. As a reminder, we hedge most of our sales for a 12 month period, hence any change in spot rate while is reflective in the revenue gets adjusted in the hedge rate as a hedge gain or loss in the P&L. The company saw a hedge gain of 2 crores against a hedge loss of 12.4 crores in the 3rd Quarter of the previous year.

Operating EBIT was up 42% year-on-year, supported by stable depreciation cost of about Rs.109 crores similar to the last year.

Interest expense increased by 15% year-on-year due to an increase in lease liabilities.

The other income for the quarter was Rs.18 crores compared to Rs.29 crores in the previous year, which included a one-off item relating to income tax refund amounting to Rs.15.8 crores in the same quarter last year and Rs.2.5 crores in Q3 FY'25.

Moving to income tax, during the quarter, the company chose to settle income tax dues for prior year amounting to Rs.9.5 crores under Vivad Se Viswas Scheme.

With facilities coming out of the favorable tax base created by the SEZ status adjusted for prior year taxes I mentioned, the reported effective tax rate stood at 22.2% against 19.3% in the same quarter last year.

Reported profit after tax before exceptional items increased by 14%, after exceptional items grew by 18% to Rs.131 crores.

Turning the Performance in the First Nine Months of the Year. Revenue from operations was up 2% year-on-year in reported currency, flat in constant currency as early softness in the first half of the year was offset by the recovery in the 3rd Quarter. This growth was marked by return to growth in discovery services division as well as continued growth in the Syngene CDMO division with increased traction in biologics.

Despite decline in revenue and EBITDA in the first half of the year, the 3rd Quarter revenue growth and improvement in margins enabled us to report flat year-on-year EBITDA for the nine-month period. The operating EBITDA margins stood at 26.6% compared to a 27.1% in the same period last year.

While raw material costs benefit from gain efficiencies in biologics, investments in people, digitization initiatives, in addition to decline in revenue in the first half of the year, impacted margins. The trend of operating expenses in the first nine months of the year broadly reflects that of the 3rd Quarter.

Reported PAT after exceptional items decreased 3% year-on-year to Rs.313 crores due to an increase in depreciation on account of investments made in the last 12-months and a decline in interest income due to lower cash balance as we utilize the cash to acquire Biologics Unit from Stelis Biopharma in Q3 of FY'24.

We continue to invest in the expansion of capacities and capabilities in technological advancements to drive long-term growth. Over the first nine months, we invested a total CAPEX of around US\$34 million, approximately 50% in research services and approximately 25% in biologics to upgrade Unit-III, the manufacturing facility that we acquired last year. We continued our investments in digitization and automation, which we believe are essential for increasing efficiencies in our business. We maintain a strong balance sheet and after meeting our CAPEX for the quarter, we have a net cash of Rs.838 crores as of December 2024.

Finally, let me say a few words about "Guidance." Revenue trajectory in the first half of the year was as anticipated. The 3rd Quarter performance was back to growth after three quarters of decline. The growth observed in the quarter indicates that market dynamics, particularly within the US biotech sector, are stabilizing. As mentioned by Jonathan, the recovery in demand, which was expected in the second half of the year, experienced a delay of approximately eight to 12 weeks.

We saw initial pilot projects with large and mid-size pharma companies starting to convert into longer-term contracts. We are also seeing positive momentum in the CDMO division led by biologics.

We expect the growth momentum to continue in the fourth quarter of this financial year. Despite challenges faced in the first half of the year, we expect to close the full year with single digit revenue growth and a flat track.

As communicated in the last quarter, we expect operating EBITDA margins recovery to continue in the fourth quarter, which should lead to a full year margin around the same as last year in the high 20s as we have guided previously.

Our CAPEX program for the year remains on track at around 60 million by the end of the year.

While we remain cautiously optimistic, we continue to focus on executing in line with our strategies and are investing in the right capacity and capabilities to position the company for future growth.

I will now hand it back to the operator and we will take a few questions.

**Moderator:**

We will now begin the question-and-answer. We will take our first question from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

**Shyam Srinivasan:**

Just on the revenue guidance cut, right, so I think earlier we had high single digit growth. I know it started with range high single digit to low double digit. Now, can I assume like mid-single digit dollar like 5%? I am not asking you to pin down a number but just trying to see this trajectory of revenue revisions downwards. If you could help us understand with the qualitative comment around eight to 12 weeks but in terms of when we started the year versus now what's been the biggest miss for us in terms of expectation versus reality? And two, if you could also help us give the split of the businesses between CRO and CDMO, right, research versus CDMO, has there been a mix shift in the nine months or maybe in the forecasted 12 months so that we can get a sense of where the weakness is higher or lower? So, those are my two questions.

**Jonathan Hunt:**

I shall try and color in a bit more and help you think about it. I mean, what I was trying to get at with my comments, our guidance at the beginning of the year is two sets of forecasts really, isn't it, because I have to trip. Let's take a view on what we think the rate of recovery in the US biotech funding and then flow through to expenditure market is and then I had to try and take a view on what we think our share within that market is. And I think the comments I was alluding to you to is the rate of stabilization in the biotech funding took longer in the year than what we'd included in our original guidance. I was hopeful that we would stabilize clearly in 2Q and I think it stabilized more in 3Q. If you actually look at our ability to win share in, it looks on plan to what I originally expected, just phase shifted out by those eight to 12 weeks. So, that's what, the coded language if you are decoding what were we saying in the press release in the comments was exactly that. It's good to be back into growth in the 3rd Quarter plus 11%. I just think that the external environment stabilized a little bit later in the year than I'd originally baked into our guidance when we gave it. And then I am sure as the earning seasons go through, you will read that across into the performance of others and other comments and we will all piece together the

jigsaw at the end of the earnings cycle. As to the split, I think and again this is intuitively embedded in it. If it's US biotech funding, it's more likely to be in research because that's what they spend their money on when they rave in. So, I think that's probably true. Does that help?

**Shyam Srinivasan:** Yes. So, maybe you put this number out only once a year. So, is it fair to assume like 100, 200 basis points of that 60% has actually come off, right? I am trying to assess the decline in the CRO business. I think that's what we are trying to assess, Jonathan.

**Jonathan Hunt:** It's growing; it grew in the 3rd Quarter.

**Shyam Srinivasan:** Just macro. There's been a delay in the whole US Biosecure Act being cleared by. So, I am not asking you to comment on legislation, but from a conversion of these projects, like you said, there's a pilot project that has been converted. Has there been any behavioral change or are people now reluctant to kind of or there is the urgency to move things out of China, let's assume, has that reduced, so any comment?

**Jonathan Hunt:** Again. I don't know what would terrible thing to the CEO asking me analyst question rather me, it is other way around. Well, how would you interpret all the comments I've made throughout the year and the year before and things like Biosecure. I think I've been fairly constant and saying, at best, it's the cherry on the top of the cake, it isn't the cake, it's as much or more so about pandemic learning, COVID supply chains, it's around structural rebalancing around it's about risk committees. I think I and many other CEOs have not placed a single point emphasis on the Biosecure Act. Now, if you're using that as a shorthand for the whole thing, I get it. But the big change in the Biosecure Act was the moment that they took the implementation deadline from, you've got to get it done in 12 months to you've got to get it in eight years. But that happened over a year ago. And again, that's the 3rd Quarter I've made that comment. I think it feels like it anyway. So, I don't think it's that. I think it's more structural. Here's a good word for you. It's more tectonic, like plate tectonic, it's going in one direction, it's powerful, but it's slow moving, steady moving, however you interpret tectonic. But that's what I've been trying to say to you all year, I said it over here. I said it on public dias and conference calls. In most industries, that would be considered to be a reasonably positive structural tailwind that was going to play out all them, you can now go back to the last two quarters, this will play out over many years, not over weeks. So, there you go, Srimi. You've got me in a talkative mood and I've colored in as much as I can. So, that's what I think is going on across the industry. And that's good, that's a positive for the Indian industry to have that sort of structural dimension to it.

**Moderator:** Next question is from the line of Chirag Dagli from DSP Mutual Fund. Please go ahead.

**Chirag Dagli:** Jonathan, you talked about positive momentum in the CDMO division led by biologics. Does this mean that the new facility, which is going to come on stream, you already have customers for that and how should we think about ramp up of that capacity as and when it comes on stream?

- Jonathan Hunt:** Super question. No, it doesn't mean that, no, it doesn't mean that as in I made no comment on it. The whole point we were telling you is about the acquisition of that facility. We were running out of capacity because of the rate of growth we have seen over the last two or three years in our biologics. We were getting close to me being concerned if we continue at this growth, we will have to turn clients away because we won't have capacity. That prompted us to think do we accelerate our internal build out. And that's still left us with an overhang risk, which was you can't build plants that quickly. And then we saw a good opportunity, which I think was good value. We paid cents on the dollar for that facility, and we have invested and then we told you, look, don't start plugging anything into your models. It's 12 months just for us to do the renovation and the retooling and the reengineering and that 12 months is not yet that ends this quarter and we are on track. So, all that happens probably in April is that facility is ready to do work for clients that want to place work there and then we are into the selling cycle. But I am going to look across at my finance colleagues and not if I am getting this right. The life cycle on the plant like that is 20, 30 years. So, we will try and sell capacity, but I don't know, I am not a big believer in hockey stick moments in any sort of business. Does that make sense?
- Chirag Dagli:** Understood. Fair point. The other question is, Jonathan, we have spent two years now with single digit kind of growth in FY'24 and FY'25 and you always articulate the reasons well. The question is the next two years or maybe three years, how different should they look versus the last two years where we spent single digit while we continue to invest in the business for the longer term? But revenue growth -
- Jonathan Hunt:** Yes, super like I get. You know, I am not going to give you a two-year guidance, I would look at the 3rd Quarter results. But let's just minimize it to quarter, shall we? Minus two last quarter, minus two the quarter before plus 11 this quarter, you can triangulate as Srinivasan did from Goldman in his first question, what does it mean for the full year, fourth quarter. I think feels like the 3rd Quarter. So, there you go. I am not prepared to go into next year, but at least I have told you a bit about what I think is happening in this quarter and next. We are back into growth. We will update you in April when I've had a chance to really have a look at the annual operating plan. But I see very similar patterns. If I look across either our Indian peer group or look more broadly, we don't look to some of anything, we went into the slow down a little bit later than them, we have come out of it maybe a quarter earlier than many of them, but was all largely experienced the same. I think slowdown in research because of slowdown in biotech funding and therefore slowdown in expenditure and I think it stabilized. We will see how much it rebound.
- Chirag Dagli:** What is your employee strength and scientific talent pool strength?
- Jonathan Hunt:** I need to look it up, but we publish it once a year in the annual report. It's largely unchanged. There's some very good scientists though.
- Chirag Dagli:** So, it's largely unchanged from the March '24 number as on today?



- Jonathan Hunt:** I think so, but I'd have to go and look it up. Not something that we report quarterly.
- Moderator:** Next question is from the line of Alankar Garude from Kotak Institutional Equities. Please go ahead.
- Alankar Garude:** Sir, one question is on the technology bit or the capabilities bit. Now out of the various capabilities, technologies such as say lyophilization, low chemistry, column chromatography which we offer, which ones would you say are our forte? And similarly, I mean which would be the technologies where you think that there is some catching up to do in terms of the depth of our offering?
- Jonathan Hunt:** Clearly we think we do a good job in large molecule biologics, whether it's discovery, development or manufacturing of those. In the small molecules, actually all of the things that you listed are sort of core competencies where we are right in the middle of the pack where I think we are very solid on our small molecule development and manufacturing. And then once you go into the research services, remember, historical research is the biggest part of the business. You're right on the frontier of many things. Whether it's some of the advanced techniques in biology or in chemistry, I think we are doing some really good innovation work. But if you roll it back to strategy, our intention is to be broad enough on our scientific capabilities that we can meet the needs of a large proportion of the market, particularly recognizing that a lot of our customers also have large scientific footprints, and they don't want to be having managing a multiplicity of partners. They quite like that bit of one-stop shopping. They can align culturally, operationally, and then get everything they need. So, we are intentionally broad scientifically.
- Alankar Garude:** The second one is more of a clarification. Last month in December, there was this FDA letter which came for Librela. This is not really a new issue, but I just wanted to understand, get confidence from you whether that \$50 million annual number, do you foresee any risk to that at all?
- Jonathan Hunt:** I couldn't comment on the FDA letter. I mean, that's a question for Zoetis. I will go right the way back. The \$50 million I think what I actually said at the time was an answer to a question, how do you want us to think about this? And I said \$500 million over 10 years will average around \$50 million a year. Beyond that, we don't call out individual quarters or months of production partly because it's clearly competitive and sensitive for our clients. I don't think they would want to be disclosing that to their competitors. My understanding is it's doing well in the marketplace and we are very happy with our relationship.
- Alankar Garude:** So, essentially, on that \$500 million number, you don't foresee any risk as now?
- Jonathan Hunt:** I don't think I said that, but then I don't know the CEO, you're not a professional risk, I don't know what it would be. I spend a lot of time worrying about what could go wrong to make sure it doesn't go wrong. Please don't misinterpret. I am not making any suggestion around that, but

you did ask me a question to prognosticate for another eight years. I don't think I could do that. But today the relationship is good, the product is doing well, I understand certainly our delivery and manufacturing has been good and continue to get better. Very happy to have that relationship. I hope we do a lot more with Zoetis, with other animal health companies and with human health companies.

**Moderator:** We will take our next question from the line of Madhav Marda from Fidelity International. Please go ahead.

**Madhav Marda:** My first question was if I understand right and correct me if I am wrong that we have two facilities, one is the one which we acquired and one is the Mangalore API facility, both of them seem to be running lower on the utilization side. So, just what I wanted to understand is how much of a drag does that have on our profitability given that there might be operating deleverage that you're facing with those sites currently, so if you could give us some sense to understand?

**Jonathan Hunt:** Just the basic construct of the question, no, we don't have just two facilities, we have an entire manufacturing campus facilities here, our main campus in Bangalore around the corner, we have got Unit-III which we have added, which is a large molecule one, we have got a campus with more than one block over in Mangalore. Yes, so to some extent your question is a derivative of the construct.

**Madhav Marda:** No, my point was that these two facilities are the ones which are a bit underutilized currently, right, where one we are renovating the site and one way -

**Jonathan Hunt:** Super. Well, it's not unutilized. One of them hasn't opened yet.

**Madhav Marda:** My simple question was how much of a cost very broadly are we incurring at these two sites so we can get a sense of the underlying business profitability given that initially as you scale up the plants, you might be incurring some OPEX at both the facilities, right?

**Jonathan Hunt:** Love the question. Not sure we have ever given that level of detail. I am looking at my finance colleagues anything helpfully I can do. I mean, you've got turnkey operations in there. Whatever you need to bring a facility up to speed, it won't be an enormous amount. But beyond that, I am not sure I can give you that level of color.

**Moderator:** We will take our next question from the line of Bharat Sheth from Quest Investment. Please go ahead.

**Bharat Sheth:** I want to understand how much we integrate the IT on the research side, expedite as well as AI part side, so if you can give some color in our road map for the same?

**Jonathan Hunt:** Gosh, we could be here till midnight if we really talked about it. It's quite an exciting area. We do, do it. So, we have within the company of course our own AI informatics and sort of digital

research if you think in that way group. So, as I was saying a good question. There's an awful lot of excitement and there's column entries written every day around Gen. AI application in all walks of life and we are making good progress on that journey. We have those sort of decision support tools already operating in the company, whether it's use of things like alpha fold, you will have read about that to help you predict, how proteins fold and therefore help you in drug discovery, whether it's AI augmentation of scientific decision making, we have algorithms that will go and look at all of the scientific literature in the world and help our scientists understand what's already known so they can add to it with new innovations. We have digital ways of helping us predict the MPK distribution properties. So, it's real. I don't know. I think it's a little bit like the moment where the world started talking about the internet and then just not being able to live without it. Certainly, I find in my home life, with my youngest son, he can barely breathe unless he has access to the internet. I think that's what we are going to see in the world of work. We will build those AI tools into everything we already do scientifically. Does that help? I am not sure I told you anything specific other than what we are doing.

**Bharat Sheth:**

Yes, but if you have to think of frosssm say two, three years perspective, how do you think that can really benefit on the efficiency side or bringing down the cost, so any color do you have at this moment or will have to wait?

**Jonathan Hunt:**

Certainly, if you find ways of doing things quicker... I think the real issue in innovation, let's split it between the innovative bit of the company, finding new drugs, creating new knowledge and then the rest of it. In the innovation bit, you just want to help you, make the right decision more often, make the right decision quicker, have a higher degree of confidence in your scientific decision making. So, it won't necessarily make it cheaper, but it will make it more value creating because those are the magic moments in drug discovery. It's an intuitive breakthrough that you validate it, proving that something works. So, it's a lot around decision support. And then I think if you come into the rest of the business, like many companies. I don't know you will end up with AI bots looking at your financial accounts, your press release, your admin, your contracts, and there you will just try and industrialize white collar work and augment it digitally and that will drive up speed, drive down cost. But I think that's a journey that all businesses, yours, including, I would imagine would go through and those sort of things. And then the last bit for us actually scientifically it bridges from manufacturing into the labs, it's around automation. How do you try and link various machines together so that you don't have that human intervention and therefore you can go a little bit quicker with certainty, and we do that sort of thing every day at sort of a business as usual task to see how we can try and automate various processes within the business.

**Bharat Sheth:**

I have one question for Deepak. Sir, in initial remark we said that we take the hedging for the 12 months. Is it fair understanding the rolling 12 months or for our financial year only?

**Deepak Jain:**

No, we are just talking about the financial year.

- Bharat Sheth:** Again, say next hedging will be at little higher rate than what we already have, correct?
- Deepak Jain:** Hedging or financial year.
- Jonathan Hunt:** Do you hedge one for 12 months or do you hedge every day for a rolling forward view of 12 months?
- Deepak Jain:** We do a rolling forward view hedging. I thought your question was around financial.
- Jonathan Hunt:** Just let me summarize. No confusion that we caused. Hedging forward view 12 months, but rolling. So, we updated in real time. Forward book goes 12 months.
- Moderator:** We will take our next question from the line of Neha Manpuria from Bank of America. Please go ahead.
- Neha Manpuria:** Jonathan, based on your comments that there is a structural need by innovators to look at alternate location to China. Is there any investment you think we need to make the increase in the commercial footprint in order to get that business with the competitive dynamics changing globally?
- Jonathan Hunt:** I think we have done quite a bit of that. So, if you look two levels either on a capacity level now go back to the earlier discussions were asking me about when is Unit-III Stelis coming on line. That's just making sure we have got the capacity headroom in place to enable future growth because we were running out of capacity. And on the commercial piece, I assume the earlier question about what's the latest headcount was digging into this. The 14% if I got the right, 14% increase in the salary bill, some of that is going into new capabilities and some of that will be in commercial, our sales force structurally over recent years. We now have more of the staff living in the West, close to clients, and I think that's advantageous for us. Net-net it's more expensive on a per person basis, but they spend less time travelling to the US because they live there already and they're much closer to their customers that gives them more selling days in a year and often it gives them the opportunity to build closer relationships. So, I think we have done some of that already.
- Neha Manpuria:** Would this addition be more in the recent years, I understand you would have been obviously investing this but has that focus increased, that investment increased let's say in the last few quarters with this entire noise around Biosecure, etc., whether it happens or not?
- Jonathan Hunt:** No, no, again, you're going to take me back to where you said that entire noise about the Biosecure. I tried really hard at the beginning of the call to say it's more structural than the Biosecure. It started over the last 24 months and certainly was in place over the last year. You can see that in our margins and our costs. But it's good, it's the right thing to do, if we want more, connect more face time with customers, we have got to be prepared to invest in it.

**Neha Manpuria:**

And just an extension to that question. Some of our peers have argued that it's an advantage to have let's say manufacturing or R&D facilities closer to customers. Would that be a direction that you could think at from a capital allocation perspective in the next few years or that's something that you think the way we have structured now with capacities in India makes more sense for Syngene?

**Jonathan Hunt:**

Good question. I am going to give you a strategic answer, but as long as you promise not to misinterpret it because I would never comment on M&A, I've never known any exec say, "Oh yes." Let me tell you about the secret thing that we are working on it. Don't misinterpret that. I think there are elements where if you can get unique talents that you can't get in one geography of the world that are in another and that doesn't necessarily mean Europe, I can't get this in Japan, so I buy it in Europe, I can't get in Europe, so I buy it in the US. That would be the one strategically sensible reason. The other one, if there were particular requirements from a customer point of view and you know this if you look across the pharma industry particularly on innovative drugs customers historically are much more comfortable doing drug product final formulation in region. So, you tend to get more of the drug product made in the US for consumption in the US, you get drug product made in Europe for consumption in Europe. Once you go back to API, so drug substance, then into intermediates, RSMs and KSMs, people are less concerned around where it's made as long as it's made to quality and standard and cost and you can see that, I mean the whole Indian generics industry and the Indian API industry has been founded and has benefit on that, India tends to do well on KSMs, RSMs, intermediates into some drug substance, but most of the drug products in the world is made in the regions where it's consumed, whether it's Japan or in Europe or in the US. So, you can get. I think there are good reasons why sometimes you'd want to be in one region. Equally, don't miss. There are a lot of Western companies at the moment thinking I wish I wasn't in the West; I wish I was in Asia. India looks good. Large population, supply of talent, labour cost arbitrage, good knowledge around chemistry and science in general. So, I think our industry group whether it's Syngene or my peers here in India are also benefitting. Sometimes it's good to be in a particular region. Does that help you?

**Neha Manpuria:**

Yes, that's helpful. Our Baxter dedicated service contract was supposed to expire in 2024 So, is that renewed, is it up for renewal, any update on that?

**Jonathan Hunt:**

I just would never comment at an individual client level. We have a good relationship with Baxter and I know we have done good work for them over recent years, but there's an element of proprietoriness for each individual client about not commenting on what they do and don't do.

**Moderator:**

We will take our next question from the line of Kunal Dhamesha from Macquarie. Please go ahead.

**Kunal Dhamesha:** First question is on the momentum of RFPs which used to be quite high at least in the first half of the year while you're seeing some conversion, or we will see some conversion of those RFP. But how is the RFP momentum behaved in Q3 for us and let's say at the start of the year?

**Jonathan Hunt:** Good question. I will tell you what's going through my mind. When I answered that earlier in the year, I said let me give you a point of color because somebody asked me a question, but please don't expect us to report on this like a statutory reporting item from now on and you all promise me that you wouldn't do that. So, no real change, particularly, I am trying to get away from, it's a leading indicator, it was meant to give you a sense that there are people that are looking to rebalance their supply chains, whether it's from China or ever or coming out of the US because of the Inflation Reduction Act and we are out there in front of the client. I'd go back to our revenue. 3rd Quarter was up 11%. That's after two quarters of decline, minus 2, minus 2. We called it that we would return to growth in the second half of the year, took a little bit longer than I expected, largely around the stabilization in the biotech market, after that it's business as usual.

**Kunal Dhamesha:** But would it be fair to say that the RFP momentum that we saw in the first half has continued in Q3 or is there some change? And a related question is after let's say a probable delay in US Biosecure, have you seen any change in the competitive intensity or strategy of our competitors with their forecast or maybe -?

**Jonathan Hunt:** So, let me say a bit about the second one, although I am in danger of repeating the conversation we had at the beginning of the call. It's a perspective. I am sharing my view. Biosecure, if you're using a shorthand for global restructuring of supply chains, patent expiries in the US the Inflation Reduction Act impact, risk management in a geopolitical world, learnings from COVID, and balancing supply chain, so you have resilience, if you club all of those things together. I think it's more structural than one piece of legislation. The Biosecure Act was crafted, directed at five companies. And I've been consistent throughout the year. I am not hung up on the Biosecure Act. I am just looking at my clients, think about how they manage risk and resilience in their organization and they have been doing it for one or two or three years. So, I think that's real and I think that'll play out over multiple years. You're getting that?

**Kunal Dhamesha:** Yes, yes, yes. And then one more of a business-related question. Since we are right now at the CRO end of activities, we do manufacture but still primarily we are levered to the CRO end of activity versus CMO. In your client set, what's the kind of churn that you see over a five-year period, let's say maybe you know the number of clients that you have right now, how many were five years back?

**Jonathan Hunt:** Good question and somebody's going to get me the number, I don't have it on hand, but intuitively I will give you a gut feel. Not a lot of churns, it's very good and I can get that just through the lens of. I meet the same customers multiple times over five years, the same people, the same faces. The only thing I would say about your characterization of the company, it's 60:40



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split now, 60% of the revenue would be research, 40% would be development and manufacturing, so CDMO, not pure manufacturing, but it's less pronounced towards research than you might have appreciated, it's about 60:40.

**Moderator:** Ladies and gentlemen, we will take that as the last question for today. I now hand the conference over to Ms. Nandini Agarwal for closing comments. Over to you.

**Nandini Agarwal:** Well, thank you everybody for joining the call. If you have any further questions, you can get in touch with IR Team. Thanks, and have a good day.

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