Syngene International's Q1 FY 2023 Conference Call

July 21, 2022

Key Participants from Syngene International

- Mr. Jonathan Hunt: 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 First Quarter, Ended June 2023 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 touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Neha Shroff from EY. Thank you and over to you ma'am.

Neha Shroff: Thank you, Steven, and good evening, everyone. Thank you for joining us on this call to discuss Syngene's Q1 FY'23 financial and business performance. From the management side, we have Mr. Jonathan Hunt, MD and Chief Executive Officer; Mr. Sibaji Biswas, Chief Financial Officer and Dr. Mahesh Bhalgat, Chief Operating Officer. Post opening remarks from the

Management's side, we will open the line for Q&A, and 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 risk 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, now I will hand over the call to Mr. Jonathan Hunt. Thank you, and over to you, sir.

Jonathan Hunt: Thank you and good afternoon, everybody. Thanks for joining us on the call today to discuss Syngene's first quarter results.

I will start my remarks with a quick overview of the key financials for the quarter before getting into operational and strategic highlights, most notable being the 10-year strategic biologics manufacturing partnership with Zoetis. After that, I will hand over to Sibaji to give more details on the financial performance and then we will be happy to open for questions.

Overall, the shape of the quarter was pretty much in line with the expectations we set at the start of the financial year. You will recall we guided the mid-teens growth in revenue from operations for the full year, but we said

there would be some phasing through the year with growth rates picking up as we went along. We expected muted growth in the first quarter in comparison to what was a boosted first quarter last year due to the one-off spike in demand for Remdesivir and that is pretty much what we saw. In fact, the first quarter results are better than our predictions with signs of strong operational delivery and I think a clear boost from currency. Sibaji will cover them in more detail in his remarks.

Reported revenue from operations grew by 8% to Rs.644 Crores, EBITDA was up 6% to Rs.188 Crores and EBITDA margin for the quarter was maintained at 28.5%, profit after tax declined 4% year-on-year to 74 Crores. In the same period last year Syngene's revenue was boosted by the manufacturing of Remdesivir to fulfill the high demand as India battled the second wave of COVID and while the company retains a voluntary license there has not been much demand in the first quarter, a reflection I think of the increased uptake of vaccinations and the positive impact we are all seeing from those vaccination programs. The demand for treatments like Remdesivir has reduced and I think that is a pretty positive sign for all of us. So, if we exclude the impact of Remdesivir underlying revenue from operations in the quarter was around 30% year-on-year. Profit after tax for the quarter grew by around 31% year-on-year and the underlying growth rates excluding Remdesivir I think it may be a better indicator of the sort of momentum that we are starting to see.

These results reflect sustained performance across all our business divisions with the growth momentum being led by the development and manufacturing services divisions as a result of consistent delivery planned projects during the quarter. Discovery services and dedicated center also continued to perform well, and they did play a part in contributing to the revenue growth. With a healthy demand environment supported by rupee depreciation, we are raising guidance for the year from mid-teens to high teens and as I mentioned the recent highlight was the signing of the 10-year strategic partnership with Zoetis. This contract relates to the commercial manufacturing of Librela – a first of its kind injectable monoclonal antibody which used to alleviate pain associated with osteoarthritis in dogs.

Zoetis has already launched the product in key markets in Europe where it is enjoying considerable success and they anticipate taking it to the US in subject of course to gaining FDA approval. Our role will be to support them as the product grows by manufacturing the drug substance on a commercial scale. We gave you a sense of the overall financial value of the deal. Let me remind you that we see this having the potential of being worth up to $500 million over the next 10 years, subject to of course regulate free approvals and market demand and Sibaji will cover his thoughts on how best to model this in his comments.

As some of you will know we have been collaborating with Zoetis since 2011. Originally within our research services business and we really have been delighted to be partnering with them across the full value chain. The deal will leverage the sustained investments we have made over recent years in setting up world-class production facilities for biologics and overall, we expect development and manufacturing divisions to contribute an increase in share of our revenues going forward. I will let Sibaji give you his thoughts on how best to incorporate that into your models but caution you that we capture the benefit we expect this year in our upgraded guidance for the full year. So really it is only a modeling factor you have to form a view on for next year and beyond.

Also, in the quarter we continue to invest in new infrastructure and capability development. I will give you a couple of examples of how we are rounding out a range of services and continue to keep pace with the leading edge of science. By the way these examples are just meant to illustrate enhancements in the use of technology and skills rather than a trigger to change something in your forecast models. The first is the addition of a kilo lab to our polymer specialty materials team and development services. This facility will show the development timeline for clients, we look for highly customizable and flexible systems to expedite formulation and process development work. Secondly, this is part of phase three of our expansion in Hyderabad, we commissioned a PROTAC lab and over 150 scientists and analysts. PROTACs is a targeted

protein degradation technology that offers therapeutic interventions not easily achievable with existing drug discovery approaches. A Further highlight for the quarter was being awarded the most preferred workplace by Marksman Daily in association with India Today. We really are very proud of the careers we offer to scientists, and we offer opportunities for them to develop their skills while collaborating with some of the leading global science-based companies and best scientists in the world. So, in that respect this award is very much a welcome recognition of our efforts.

In conclusion, I am delighted with the signing of the long-term agreement with Zoetis. We see this as a significant strategic step forward for our biologics business. We pride ourselves on the many long-term client relationships, we have built over the years, and we are excited to extend our relationship with Zoetis even further. Each of our divisions performed well in the quarter and we continue to invest in capability building and we will continue to explore opportunities to invest where we see healthy demand and finally given the positive starts of the year on an underlying basis supported by the benefit of depreciation of the rupee, we are raising our revenue guidance for the year from mid-teens to high teens growth in revenue from operations.

So, with that let me hand over to you Sibaji for more details on the financials.

Sibaji Biswas: Thank you Jonathan and a very good afternoon to you all. I am happy to take you through our results for the first quarter. I will start with revenue performance, then take you through margins and profitability for the company as a whole and end with thoughts on outlook for the rest of the year. I will also advise you how to model the Zoetis deal, so that you have a better understanding of how it contributes to Syngene's growth profile.

Please note that you will hear me refer to 'underlying performance' throughout my remarks. The context for this, just to be absolutely clear, is excluding the impact of Remdesivir manufacturing which is particularly significant in the first quarter as you might have seen. We recorded high sales of Remdesivir during the first quarter of FY2022 and this is due to the second wave of COVID and no Remdesivir sales has been recorded in Q1 FY2023 which is the quarter we are reporting.

Now let me begin with highlights of quarter one performance: As you have heard, revenue from operations for the quarter grew by 8% versus the same quarter last year. Underlying revenue growth was around 30% – a pretty strong performance. This growth is driven by contribution from all divisions.

In particular, our development and manufacturing services are showing good growth and future looks positive with good demand situation. While the supply chain issues which impacted the biologics business last year continue, we are sufficiently stocked up to navigate such challenges. With this and with

the signing of the long-term commercial supply agreement with Zoetis, we are looking forward to scaling up the biologics business to drive revenue growth.

Now let me spend a moment on the Zoetis agreement. The agreement with Zoetis to manufacture the drug substance for Librela will take Syngene into commercial manufacturing of large molecules which is in line with our strategy to offer an end-to-end discovery, development and manufacturing platform. As Jonathan mentioned, Zoetis anticipates USFDA approval for Librela this year. From our perspective, this will trigger an FDA and EMA inspection for Syngene's facility to qualify for the commercial supply before the manufacturing starts.

Syngene's overall investment in biologics has been about 550 million and we expect to generate healthy return on investment and an asset turnover of around 1x as we scale up the manufacturing. We have plans to invest another 30 million in the current year, taking the cumulative biologics investment to $80 million by end of this financial year.

We expect the overall EBITDA margin for FY2023 to be around 30%, as guided earlier. With increased capacity utilization of the manufacturing facilities, we expect operating leverage to improve from FY2024, that is next year.

Jonathan mentioned rupee depreciation during the period, so let me address that. Our hedging policy requires us to fully hedge receivables in advance and

the hedge rate for Q1 FY2023 was around Rs.78 per U.S. dollar. Due to our hedging policy, which prevents us from taking any speculative positions, our P&L is insulated from forex fluctuation in the short to medium-term and therefore, at the PAT level, we do not have any benefit from recent rupee depreciation. However, the top-line is improved as the rupee depreciation benefit moves up from the hedge gain line with OPEX to the revenue line improving the optics of revenue growth.

At constant exchange rate, our underlying growth net of Remdesivir in base is around 25%. This quarter, we have a hedge loss of Rs.3 Crores compared to a net gain of Rs.15 Crores same period last year and the swing will have an impact on the EBITDA margin. This is because rupee depreciation improves the revenue line without any corresponding improvement in EBITDA, thereby reducing the reported EBITDA margin. The reported EBITDA margin for the quarter was 28.5% compared to 29.2% in the same quarter last year. Normalizing for the rupee depreciation impact in the top line and adjusting for hedge losses and gains in those periods, EBITDA margin for the quarter is higher by 50 basis points compared to the previous year.

I will now cover the other cost line items across P&L. Material cost decreased from about 32.1% of revenue in the first quarter of last year to 24.6% in the first quarter of this year. This is mainly because of the high raw material cost from Remdesivir in the previous year. You would remember from my previous

commentary that we expense non-inventorizable raw materials on purchase. So, this quarter's lower raw material cost is also a reflection of materials, but just last quarter and used in the first quarter. On normalized basis the raw material cost in the business should be in the range of 26% to 27% and this may move up a bit with increasing share of manufacturing in revenue.

Now moving to staff cost: During the quarter, staff cost as a percentage of revenue was 28.2% same as first quarter of last year. The year-on-year increase of 9% is in line with the increase in the staff strength. Power cost increased from 2.2% of revenue in Q1 FY2022 to 2.6% in Q1 FY2023. While we added new facilities and infrastructure which is increasing the cost there was also an inflationary impact and unscheduled downtime in public distribution lines forcing us to use alternate sources of energy which is more expensive. We believe this will somewhat moderate in the coming quarters.

Now moving to other cost: I would like to remind you that the first quarter of last year was impacted by the second wave of pandemic with activity at the minimum level required to run the operations without any disruption. While this reflects in a year-on-year increase of 57% in other costs, if you compare on a sequential basis, that is compared with Q4 of FY2022 the last quarter the other costs have declined by 7%.

Now let me explain the underlying reasons for the cost increase in this line year-on-year. The facility and equipment maintenance cost increased as we

open new lab space and install new equipment and infrastructure during the last 12 months, mostly in Hyderabad and Bangalore. Also, as we came out of pandemic restrictions from quarter four last year global travel and sales execution activities have picked up nearing the pre pandemic levels. This, along with other operating investments, including commercial team expansion, acceleration in digitization and automation across the business is also leading to higher cost on year-on-year basis. We are also witnessing inflationary pressures like most other businesses which is driving our cost. The increase in cost however is in line with expectation and guidance even at the beginning of the year.

Overall EBITDA for the quarter was Rs.188 Crores compared to Rs.177 Crores for the same period last year a growth of 6%. As Jonathan mentioned, underlying EBITDA growth is broadly tracking the top line growth and is reflecting of the operating leverage in the business.

Depreciation for the period was Rs.86 Crores compared to Rs.75 Cores in the same period last year. This increase of 15% on a year-on-year basis is mainly owing to the new investments. Interest income for the quarter increased from Rs.12 Crores last year to Rs.16 Crores in the current year with the improvement of interest yields. Finance costs increased from Rs.7.9 Crores to Rs.9.4 Crores as we recognize the interest component on new leased assets

during the period. With strong net cash balance, Syngene continued to earn net interest income.

Now turning to tax: The effective tax rate was around 20% compared to 18% during the same period last year. As mentioned previously, there is a gradual increase in the tax rate and some of our units move out of SEZ tax benefit period and an increasing share of business now are coming from locations not enjoying SEZ benefits. So, profit after tax stood at Rs.74 Crores as compared to Rs.77 Crores a decline of 4% which is in line with what we mentioned in our previous call indicating a declining profit for the first quarter. However, on an underlying basis, profit after tax is in line with underlying revenue and EBITDA.

Now let me spend some time on the guidance for the year. In our last call we gave you guidance of mid teen growth in revenue from operations for the year taking into account the effect of Remdesivir in FY2022. We can see how this played out in the current quarter in diluting the overall revenue growth. For clarity, the mid teen growth guidance for the year already factored in a good element of growth in biologics manufacturing. Now, with the benefits we are seeing from rupee depreciation and with the commencement of manufacturing for Zoetis towards the end of the year, we expect overall revenue growth to move up to high teens in FY2023.

Just to be clear Zoetis related growth is subject to regulatory approvals. We will provide further clarity on this as we progress through the year. As a

modeling input on Zoetis deal, you could simply divide the deal value by the number of years but adjusting for the first two years as we scale up to the optimal utilization level. Also, as a caution, the revised FY2023 guidance now being given already includes some elements of Zoetis so please do not double count the same. If we look at this upgraded guidance on an underlying basis, excluding Remdesivir, you would see underlying growth of upward of 20% and we see that this as a reasonable guide for expected growth in FY2024 as well. With this type of strong underlying growth, we believe we can also maintain our 30% EBITDA margin guidance despite the inflationary pressures in the business and additional operating investments that we are making.

We will continue to provide further update on our revenue and margin guidance in the subsequent quarters based on the progress during the year. This concludes my remarks, and we can now open the phones for questions. Thank you.

Moderator: Thank you very much Sir. We will now begin the question-and-answer session. The first question is from the line of Prakash Agarwal from Axis Capital, please go ahead.

Prakash Agarwal: Good afternoon. First question is on the constant currency growth that we have seen in the quarter and what would be the constant currency revenue guidance for us I hear you saying a high double digit led by Zoetis as well as currency but what is the constant currency growth guidance for us.

Sibaji Biswas: Thanks Prakash for this question. As I mentioned the underlying growth at constant currency has been 25% versus the underlying growth reported of 30%. So that will give you an idea of what has been the impact of rupee depreciation in first quarter. Our hedge rate has been 78 we are now seeing around 80 and that would continue to give a rupee depreciation benefit going forward, and you can calculate effectively what would that mean in terms of the benefit that we can see on the top line. Currently, what we are building in is from mid-teens to high teens, Zoetis starts only towards the end of the year and part of the increase comes from that rupee depreciation based on our understanding and that is what we have seen in the first quarter.

Prakash Agarwal: And secondly on the margin clearly there is a lot of inflationary pressures and this 30% again is quite phenomenal but this is including the other income that you calculate which is the interest income on your investments.

Sibaji Biswas: When you say 30% margin, we give operating margin guidance we do not give margin guidance including interest income. So, the answer is no, this is operating margin guidance. Yes, there is pressure from inflationary plus there is also the arithmetic rupee depreciation increase in the denominator, but

EBITDA remains same. So, it is both influencing the EBITDA margin, but we are still giving a 30% margin guidance in view of the upgraded top-line guidance.

Prakash Agarwal: And lastly in terms of the business model when do we, I mean given that growth rate is increasing we are tying up with more large players, when do we see the operating leverage to start with in terms of improving margins could it happen with Mangalore facility kicking in or we model businesses with a target of 30% EBITDA margin.

Jonathan Hunt: Thanks Prakash, I mean, I think it is a world problem path of a conversation we have had this on more than one occasion. Over the last decade or so our margins at the EBITDA level have sat comfortably around 30% to 33% we have said timeless times that we think that is strategically a stable place for us to be. That puts our margins certainly well above average for our global industry growth their top performing margins. I would be delighted to keep them in that range but as per calling it quarter-over-quarter we will happily guide you at the beginning of each year further that is a modeling challenge for you.

Prakash Agarwal: And the second part of this question was on the Mangalore side a) when it is expected to start delivering dollar revenues and if that comes in do, we expect margin to move up down or remain 30%?

Jonathan Hunt: I think this aggregate the two parts. We will continue with the sort of margin range that we have enjoyed traditionally as our business grows amongst all of

the divisions, so I do not see it as an inflection point up or down given the comment I gave you earlier that an EBITDA margin range of 30% to 33% is the zone that we have operated in for a decade or more. As per the timing of Mangalore, I am sure you can set your watch by the answer I'm about to give you which is I think last quarter I said 15 months was the pathway that we were anticipating through its regulatory inspection and that was an important milestone for Mangalore. So, you can do the Math of it is 15 months minus 3 this quarter which would be 12 to go. Although the operational things that need to happen are happening and we will update you when we get that.

Prakash Agarwal: Yes, Sir thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Shaleen Kumar from UBS Securities. Please go ahead.

Shaleen Kumar: Hi! thanks for the opportunity just want to understand one thing that while we are increasing our guidance for the top line and taking some benefit of Zoetis and keeping our margin constant would you like to increase your or would you like to retake your PAT margin as well PAT guidance.

Jonathan Hunt: Can we reiterate the PAT guidance for the year?

Sibaji Biswas: Yes, what we said was PAT will grow single digit and the reason if you remember we gave was the increase in effective tax rate year-on-year and we maintain that guidance. So, essentially, what we are saying high teens growth

in revenues, EBITDA margin guidance remain at 30% which means there will be some increase in absolute EBITDA and PAT growth we are still saying single digit in view of the headwind that we are facing from increase in effective tax rate and this we said right now at 20% and over the next few years it will gradually go up to 25%. So, please model it appropriately. However, we from an increased growth trajectory that we are witnessing now we expect the operating leverage to improve from next year onwards and that should improve the overall PAT outlook.

Shaleen Kumar: But I understand that your tax assumption should be there right I do not think that there would be a material change in your tax assumptions front there will be upside to your guidance if you are upping your top line guidance's and keeping the margin kind of same.

Sibaji Biswas: Yes, do not forget we are in a big investment mode at this point of time we given $100 million plus dollar plus capex guidance many of them will get installed and commissioned in the current financial year and will immediately start depreciating so the depreciation will also start hitting our P&L and they will start generating revenues over a period of time. So, they are in a high investment mode.

Jonathan Hunt: Something a little bit more obvious – the guidance is single digit growth in PAT where in the range of the multiple options of single digits, did you have it and where are you leaving it. That makes sense. So, we do not need to change the

guidance, but you have got a whole range there I will leave it for you to decide what growth rate you put in your model.

Shaleen Kumar: Sure, John that is fine and just to clarify on the EBITDA margin 30% because as per the last participant, so this quarter our operating EBITDA margin was 26.8% 173 Crores of EBITDA that we should take, that is the multiple EBITDA margin we are looking at 30% right.

Sibaji Biswas: Yes, so essentially if you see our business and if you look at the trajectory that our business has seen over the last few years, EBITDA margin generally increases during the year that's because there is some amount of seasonality in our business or back ended revenue generation in the business and we expect overall EBITDA margins to go up over the year and we keep that into consideration while keeping around 30% EBITDA margin guidance.

Shaleen Kumar: Just want to confirm that we are looking at the right margin number right operating margin not including other income so just want to confirm all that.

Sibaji Biswas: Yes, and but because you are modeling the only unpredictability is the rupee depreciation because the rupee depreciation if it happens more than what it is today it will include the top line first but it will keep on decreasing the margin so that is the uncertainty which is pure arithmetic which is not business driven.

Shaleen Kumar: Understood. Sibaji, how should we build the Forex part then like we have received like we kind of have like a 3 Crores of losses so if let us say rupee remains at 80 and our head is at around 78 so should we expect similar kind of Forex loss going forward.

Sibaji Biswas: Yes, it all depends. Nobody can predict a currency movement right and I am not back to get the currency at all our end. What I am saying we may go down on the top line, but we will never go down on the bottom-line because the P&L will ultimately have it captured at Rs.78 which is our forward hedge rate. We can catch up, up later to give you a little more clarity on how the modeling can happen.

Shaleen Kumar: Sure, thank you so much that is it for my side.

Moderator: Thank you. The next question is from the line of Dheeresh from White Oak Capital. Please go ahead.

Dheeresh: Thank you for the opportunity. Sibaji is this Librela we are getting involved in the commercial scale. Were we also involved in the development and discovery part?

Jonathan Hunt: Yes, if you go back that relationship with Zoetis goes back over a decade or so. They are a real innovator in their industry they were the first company to discover and develop a monocle antibody for use in animals that was a program that we did early stage working for them many, many years ago. So

that relationship is now mapping all the major touch points in our business from research into development into clinical and non-commercial manufacturing. So yes, it is an end-to-end relationship.

Dheeresh: And this number that you mentioned $55 million and then another $30, $85 this should be spread across commercial as well as the discovery and development assets for the biologics.

Sibaji Biswas: Yes, that is the investment in the total biologics business, so it includes process development and clinical and commercial scale manufacturing that is correct.

Jonathan Hunt: Yes, but it would not include the research part that is externally different division. So largely just you can draw a boundary around it and think biologics manufacturing, development manufacturing in the biologic space is sort of synonymous it does not have the right division you get on the small molecule side where they are very different it is much more iterative in the way you do it development flows very quickly into the commercial manufacturing piece. So, the Capex numbers we gave you if you just allocate those to biologics development and manufacturing and think of it as an integrated whole you will be thinking about it in the right way or at least you will be matching what we do operationally.

Dheeresh: Just one clarification, this is the first commercial scale manufacturing project for us the one that we are doing with Zoetis for biologic.

Jonathan Hunt: Yes, that is the sentiment; it is the first commercial one at large scale we may well have had projects in the past which might have been commercial, but it may have been for a particularly small indication. So it is an arbitrary distinction but if you are getting the general tone that we think this is a strategically important milestone we are delighted to be partnering with a world leader in animal health we like the fact we have got a decade of experience but it now maps across all of our value chain and this is an inflection point for our biologics business, puts them onto a pathway of really driving up not only their own performance and growth but heading towards major market regulatory milestones, all of those sound like very positive indicators for the business.

Dheeresh: Thank you so much for taking my question.

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

Surya Patra: Thanks for this opportunity, congrats for the Zoetis deal. The first question is on the regulatory clearance pathway for this biologic manufacturing plant which will be utilized for Zoetis deal. So how different is the regulatory

clearance pathway for the facility from that of the normal US FDA inspection and clearance are for other plants, is there any meaningful difference?

Jonathan Hunt: No I will invite Mahesh if you could comment on that but my high level answer would be no, it is the same regulator, it is the same sort of dimensions around it there may be technical bits about what they actually come and inspect because you are looking at the manufacturing of a small molecule in one case or a biologic in the other but in general their regulatory approach, the standards they operate to, and the sort of time scales that they operate to all look very similar. Anything you would add to that Mahesh?

Mahesh Bhalgat: Yes, so I just to add a little more clarity. So, within the FDA there is what is called CBER and CDER both of those are still part of the FDA and so the overall approach is still the same then the specifics as Jonathan mentioned around what they are looking for are going to be different parameters and these are extremely technical around how we run the operations, how we run the facilities in that unit.

Jonathan Hunt: Just one thing, do not miss the obvious, we are not driving the regulatory agenda that sits with the client, so it is completely in the gift of and managed by Zoetis and the FDA.

Surya Patra: That is helpful. My second question is on the discovery research business opportunities. So obviously that is one of the fastest growth drivers for us

Syngene International and in the recent past we have adopted many qualitative platforms for faster growth so like for example this Synvent or the integrated drug discovery platform or the platform of the PROTAC or even the peptide synthesis all these things that we have in the recent past adopted in our discovery practices, whether it has really improved qualitatively the growth trajectory of discovery research one this is my first question relating to that. The second point is that, having seen a larger investment already in the capacities both in the manufacturing capacities and the likelihood for the strong cash flow generation what we are likely to see going ahead over next couple of years so the capital allocation towards the businesses if you consider whether the discovery services business is likely to have a faster and larger asset allocation and hence there is faster growth.

Jonathan Hunt: Okay so we can disaggregate and give you various places. Take the 100 million Capex budget for this year and 50 million of that is going into research 30 million of that is going into biologics principally, biologics manufacturing, 20 million, the remainder is going across the rest of the business on everything from basic Capex infrastructure, IT development, whatever all the other line items. So, 50 million this is going into research, 30 million into biologics, 20 million into others that gives you a sense of the Capex distribution. Mathematically, no if you are growing off a small base you are going to spit out spectacular growth rate numbers so it is unlikely that the research services sort of division or divisions, the two of them together which are 28

years old, are going to churn out growth rates that are mathematically higher than much more recent development and manufacturing but it sort of does not matter. I think what you really need to get is that all of them are seeing good opportunities all the work investing and all are generating prospective returns at or above their cost of capital. So, they are good news to shareholder funds, and I think there is an element of your question with you have told us about ADC you have told us about PROTAC's are we seeing it in the growth rate? The underlying growth rate for the quarter was 30% I think that is where it came from is the fact that we have got spreads of capability.

Surya Patra: Just last one question on the Mangalore plant which is currently there obviously that is underutilized. So, what is the cost or also what is the kind of negative impact of this plant under inflation that we are currently facing.

Jonathan Hunt: I am not going to quantify for you but to your question against the sentiment it is a high quality but underutilized asset it has got to increase its utilization time the bellwether event is the achievement of major market regulatory approvals, the time clock to that is the same conversation we have every quarter, 15 months last quarter, 12 months this call that is when we get that then we will be able to update you but if the strategy is clear which is that we think it is important for us to be able to offer end-to-end discovery into development into manufacturing then the fact that the asset over a period of time as a negative contribution to margins does not really matter the strategic

thing is will you create value from it over the lifetime of the asset and that is the basis that you judge it if you are investing for value creation.

Surya Patra: Sure, thank you thanks a lot.

Moderator: Thank you. The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Good afternoon. My question is some clarity on this asset turns on biologics about 1x the question is this is to do with the product Librela or do you expect the most products where you are going to manufacture on the map front the asset turns will be about 1x.

Jonathan Hunt: I think that is quite a good modeling assumption, plug in 1x for the asset independent of the particular antibody that is going through it, and you are not going to be many a miles off in your model.

Anubhav Agarwal: The reason I asked is that to do with the yield because my perception was that at least the asset turns on biologics will be 1.5x to 2x so is that a gross wrong assumption for you? What is the yield that you are working with are you working with 4 gram per liter, or you are working with 2 gram per liter when you give this 1x asset turn assumption?

Jonathan Hunt: You are going to forgive me for not answering that because that is exactly the sort of competitive sensitive information that while I would be delighted to

tell you I do not particularly want to tell all my competitors. The sort of asset turn that we have guided to you I think is grounded in our own analysis of our facility it creates economic value for our shareholders it is profitable growth, so we are very, very happy with it. It is what it is.

Anubhav Agarwal: Second question is on this Zoetis takes care of what capacity you have right now $50 million. Now you are building up another $30 million Capex so with this traction that you are already getting on the manufacturing development front do you think this $30 million is little under investment for the future projects or let me break this question down – what is the lead time once you spend this $30 million would you have your entire project ready to take another order in a six months' time, year's timeline what is the lead time for you to be ready?

Jonathan Hunt: That is good we would be happy to take on other clients, we would be happy to invest more capital if we needed to, I would be very happy to come back telling you that we are going to put more capital to work. It is one of those Catch – 22, each time I tell you about a further capital investment it prompts a question will there be more. So, the answer is yes but we are always going to be willing to invest where we see good perspective returns and good demand and I think biologics is an industry area that those are exactly the dynamics we are seeing so that is very happy to have what we have already got; very happy to have the extra $30 million that is going in this year. We will

keep you updated as we make decisions to invest more of our shareholders capital into that area or any other area.

Anubhav Agarwal: So, when will this, capacity of $30 million be ready to take the next project in a year's timeline, six months' timeline, some idea about the lead time?

Jonathan Hunt: I do not know I have to go and look it that is the sort of project level detail that I did not kept in my head. I think well no, but to try and be helpful if you take a step back, I think from a valuing the company as an equity or building a model of our prospective sort of revenues and profits, I think we have probably given you a quite a strong hint of where you need to tweak your numbers. So just to go back through revenue from operations guidance up from mid-teens to high teens this year, we have sort of cautioned you do not stick anything really material for Zoetis in that number, that is just the organic business going forward. We have given you a high-level number for up to $500 million over 10 years, $500 million revenue from the Zoetis deal. I do not think you are going to be a million miles long if you divide that by nine or ten, take an average, plug it back into your model I would probably down wait the front end a little bit and up wait the last bit a little bit and that takes you pretty close to what is visible to you today out of the Zoetis deal. Does that help?

Anubhav Agarwal: Yes, sure that is helpful thank you.

Moderator: Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta: Good afternoon and thanks for taking my question. So just one question around again your guidance and like you mentioned it is the upgrade is coming from the rupee depreciation, but essentially what I was trying to ask was that the full-time employees on research services etc., would be all dollar denominated. So as the rupee depreciate should not our margins also improve?

Jonathan Hunt: We did not say that the upgrade was solely and exclusively linked to rupee depreciation actually I think we have seen and I made the same comments last quarter as well I think we are seeing some pretty good demand drivers around the world many, many countries where our clients are getting to a new normal I am not sure if it is going back to an old normal but people are back to work they are vaccinated they are back in their labs and there is clearly a willingness and an appetite to try and make up for lost ground, projects that maybe run a little bit slower and they are trying to reaccelerate them, that is a good environment for businesses like ours. So, we are seeing healthy demand. Secondly, internally within the company I think we are seeing some pretty good operating performance and delivery and then you have got a third factor that we largely price things in dollar and a dollar when

translated into a rupee turned out to be more valuable during the course of the first quarter. So, it was three factors not one.

Sibaji Biswas: I will just repeat and try to explain one more time what I said. We do not speculate; we hedge all our receivables and this year our receivables are hedged around Rs.78 to an average of 70 is a good number to take. So, if the rupee depreciates beyond 78 which it has already done, it takes up the top line however does not impact anything on the EBITDA because if rupee had not depreciated beyond 78, I would have captured that in the hedge gain and I have reported that every quarter for the last many, many quarters. So essentially it does not change the absolute EBITDA number it changed the top line number. I am however still maintaining a 30% EBITDA margin which is effectively means that I am saying that the arithmetic downward movement of the EBITDA margin is simply because I am using improved increasing top line without the EBITDA margin it is going to be compensated by the comment that Jonathan just made there is a good demand environment in the market and towards the end of the year, as I mentioned, we will start some Zoetis activity but again it is towards the end of the year. So overall if I take all this together, I am saying that we expect to hold on to 30% EBITDA margin which means we will get something flowing down to the EBITDA line at least from the top line. Hope I explained that to you.

Sonal Gupta: Got it. So just on the hedging part, so how many quarters forward revenue hedge do you have.

Sibaji Biswas: Our policy says that all long-term contracts have to be fully hedged for the contract period and for next 12 months we are 100% hedged and beyond 12 months that is 12 to 24 months we are 50% hedged that is broadly how it remains. Second year is the year when we hedge, but at any point in time for the next 12 months, we have to be 100% hedged and we have to be 100% hedged for all long-term contracts that is our hedging policy.

Sonal Gupta: Got it that is very helpful thank you so much.

Moderator: Thank you. The next question is from the line of Vinayak Mohta from Stallion Asset. Please go ahead.

Vinayak Mohta: Congratulations on the order is from Zoetis. So, I just had a question broadly around this Zoetis contract only. So just wanted to understand broadly what kind of ROICs are we looking to maintain in the contract because you have mentioned that you have an active turn of around 1x on the fixed asset. Could you explain what kind of working capital requirements will be required here what kind of working capital days would go into a stream and how would it impact the ROICs and the margins for the contract on a broad level.

Sibaji Biswas: Yes, so any manufacturing business would require stocking of inventory and a higher level of inventory than normally a research business would have, and

I mentioned that in my commentary that as we move more towards manufacturing the overall inventory levels and the raw materials cost to keep on increasing a bit. So that is already built in. We obviously are always looking at our return on capital and whether we are investing in projects which are giving us at least a return equal to the weighted average cost of capital plus a good buffer zone and Zoetis is comes very much in that bracket, so we effectively expect Zoetis to give us a return which does not dilute our current existing return on capital employed. So, if you know what is our ROCE now, that is not going to be diluted from Zoetis.

Vinayak Mohta: Understood so broadly understood. How big would be this Librela and the opportunity that we can go towards like what kind of opportunities are we looking at for Librela?

Sibaji Biswas: That is exactly what we told over 10 years' time it is expected to be a $500 million opportunity and how you can model it is to kind of divide by 10 years, divided by 10 however the next two years is a gradual build up till it leads to an optimal capacity utilization very simple modeling build up in next one and half to two years to the level where it will keep full capacity utilization and that is what it will be, but over 10 years it is expected to deliver around $500 million dollars.

Vinayak Mohta: No, I was just trying to understand if the opportunity is big enough that we can get an incremental order on the current existing one. Is that a possibility

or is it going to be restricted to the current order that you have got? So that way I was just trying to understand the opportunity size.

Jonathan Hunt: I love your enthusiasm in the question I was delighted that we have got to the start line, I am looking forward to kicking that project off over the rest of the year for Zoetis to get through the FDA clearance and for us to get motoring with it. But yes, I like the premise of the question I will look forward to updating you on that at some point in the future.

Vinayak Mohta: And just one last, including the working capital, the ROCs would move to 20% plus is that fair to assume.

Sibaji Biswas: Yes, when I say ROC all assets are included so all investments are included obviously, we are not excluding any investment while calculating the capital deployed and if you want more details, we can get in touch with you.

Moderator: Thank you. The next question is from the line of Prateek Mandhana from DSP Investment Managers. Please go ahead.

Prateek Mandhana: Thank you for the opportunity. I am saying that can biologics be greater than small molecules API say over the next five years or seven years do we or would a small molecule continue to be bigger after five, seven years.

Jonathan Hunt: I am not going to give you specific firm guidance but the answer to the question is clearly yes it could be. If you take a step back and look at the global

life sciences pharma, bio pharma industry we are at a point that is taken about 30 years to achieve which is if you look now in all of the industries research pipelines. You have got about a 50:50 ratio between things in development discovery that you would consider to be traditional small molecules that would end up in your API bucket versus those are the biologics and the various multi forms of biologics and biotech products. So, we have reached something that in the industry is known as platform or technology neutrality that tool for the job not the best tool that you have got. So from that point of view perfectly possible that biologics within Syngene could be bigger or smaller than the small molecules. I actually think you have got some quite good hints there it is almost certainly over the next year or two our biologics business is going to grow to be bigger than our small molecule manufacturing but you could back calculate that from the guidance I gave you about the Mangalore regulatory pathway versus the timelines that we are talking about with Zoetis. But I do not see either of those as a strategic point one being bigger than the other, they are both great capabilities and businesses to have and be in and they both create value beyond the cost of capital so from that point of view they are strategically a good fit with our business.

Prateek Mandhana: Okay and then do we expect a similar kind of an asset turnover for both?

Jonathan Hunt: Yes, I think that is pretty much in line with what we have guided.

Sibaji Biswas: Yes, but one point over here, asset turnover depends on how we report the top line and there is a raw material cost variability over there. In biologics we are able to come forward and very clearly establish that asset turnover of 1x when it is optimally utilized. For the small molecule, we have to wait for the first commercial deal to come through to have a very clear idea on that but from a ROI, ROC perspective they are very sound either way.

Prateek Mandhana: Got it thank you that is all from me.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. I now hand the conference over to Ms. Neha Shroff for closing comments. Over to your Madam!

Neha Shroff: Thank you everyone for joining today's call. I hope we have answered your question. If 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: Thank you madam. Ladies and gentlemen, on behalf of Syngene International that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.