

### Syngene International's Q4 FY 2022 Conference Call

April 28, 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 Fourth Quarter, Ended March 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 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 Q4 FY '22 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 fourth quarter and full year results. Let me start with an overview of fourth quarter financial and business highlights and then I will summarize the full year financials and then hand over to Sibaji to give you a more detailed numbers and maybe talk you through some guidance for the year ahead. Syngene's fourth quarter revenue from operations grew by 15% over the corresponding quarter last year and I was delighted to see the total revenue in quarter cross 100 million US dollars; it is a first time it has hit that mark. As you know there are some elements of seasonality to our quarterly performance and the fourth quarter is often the largest of the year. That said the growth is nicely balanced, driven by solid delivery across all four

of our divisions. Development services had a particularly strong quarter as it caught up on projects that were deferred from the previous quarter due to supply chain delays and other COVID-related disruption in addition to underlying organic growth. EBITDA for the quarter was up 13%, Rs.365 Crores while profit after tax before exceptional items was up 7% year-on-year at 148 Crores. Profit growth was depressed a little by a higher effective tax rate in the quarter compared to last year. You will recall we mentioned over the last few quarters that we expected a rise in the effective tax rate driven by the expiry of some of the historical tax benefit that we have enjoyed on a number of our facilities that are covered under SEZ tax benefit.

Now turning to business highlights for the quarter, our research businesses that is discovery services and the dedicated centers delivered very solid sustained growth. We are seeing good demand in the marketplace for chemistry and biology as many of our western clients come out of the pandemic and are getting back into their offices. Our integrated drug discovery platform – SynVent continues to gain traction is proving to be retracted proposition in the marketplace. Although this approach is still relatively new, I am delighted by the progress in its first full year. We have 15 integrated drug discovery projects up and running with clients, which gives us I think a solid foundation for the year ahead.

In manufacturing services, biologics manufacturing continue to make progress and I think the team has done an excellent job in the year overcoming supply chain challenges stemming from long lead-time of some raw materials due to COVID. Again, we are seeing good demand in the marketplace for biologics manufacturing though the lead-time to deal conclusions are a little bit longer than is the normal say in our research services businesses. During the quarter we continued to work with clients on diagnostics, treatments and vaccines related to the Coronavirus and while we retained the voluntary license for Remdesivir we are committed to continue to manufacture this product as long as the pandemic persists. We are not seeing much demand in the fourth quarter. Clearly how the pandemic evolves through FY2023 is not possible to know so we will take a conservative approach to forecasting COVID-related revenue and the intention there is to keep you updated each quarter of the year ahead. In recent weeks, global markets have started to open up to travel in-person scientific and sales events, which provide the best opportunity for us to engage directly with clients and they are starting to pick up and I expect this to lead to an increase in our sales and marketing activity in the year and consequently, an increase in our overall sales and marketing expenditure, so let me now spend a few moments reflecting on the full year we are pleased with the performance for the full year.



On the financial side we reported revenue from operations growth of 19% to 2604 Crores, profit before tax is in the mid-teens that translated to a profit after tax growth of 10% year-over-year, and of course there is highest tax rate and other factors working now. These results are ahead of our original full year guidance and came in towards the top end of the upgrading guidance range that we gave you last quarter. I will let Sibaji talk a bit more about it in a moment. As we hopefully start to leave the pandemic behind us, I am going to take a moment just to reflect on the last two years. I'm proud of our achievements for a number of reasons. Firstly, Syngene's strong financial fundamentals and business continuity planning delivered a very reliable service to our customers and this, in turn, delivered sustained growth. Secondly, this performance allowed us to create more than thousand new jobs continued to invest in new infrastructure and capabilities. Thirdly, we continue to win new customers in addition to our existing collaborations and I am proud that Syngene is continuing to operate at near normal levels throughout the pandemic and for many clients we continue to take their signs forward when their own laboratories are shut and finally, we continue to build capability and capacity to support our growth strategy. In the research business, we are upgrading technology capabilities across platforms, therapeutic areas, we have concluded phase three of the expansion for our Hyderabad facility with lab capacity to prefer the 200 scientists that brings the total number in Hyderabad to around 600. This center will meet the needs for

the next phase of growth, and we are already planning a further expansion in FY2023. In developmental services, we expect the injectable fill-finish facility to be completed in the first quarter of FY2023 and that will bring a new capability to our formulation business. We also expanded our biologics manufacturing capacity. The growing demands for biologic manufacturing have encouraged us to continue to build capacity year-on-year and for small molecules, the facility in Mangaluru is making good progress towards the required regulatory approvals, so as these investments hit their stride in the years to come we expect to see a gradual rebalancing between our research businesses, discovery services and dedicated centers in the development and the manufacturing side of the business with manufacturing starting to make a more prominent role in the company. So, in conclusion I think Syngene is well positioned to meet the positive demand that we are seeing around the world barring any adverse impact due to COVID-19 here on our client markets we see the outlook as a positive one. Overall, in terms of guidance for FY2023 is to take a conservative assumption about no further contribution from Remdesivir and we expect to deliver revenue growth in the mid-teens with an EBITDA margin of around 30% single digit PAT growth, so with that let me hand over to Sibaji.

**Sibaji Biswas:** Thank you Jonathan and a very good afternoon to you all. I am happy to take you through our results for the fourth quarter and the full year ended March 31, 2022. I will also talk about the guidance for FY2023 and our outlook for

the future as it stands today. As you look back the last two financial years reaffirm the significance of resilience in the business. Our ability to continue our operations through a combination of prudent management, disciplined implementation of COVID appropriate protocols in our campuses, proactive supply chain management by advancing purchases and securing supplies helped us mitigate the pandemic impact on our operations. In a challenging year we grew our revenues by 19%, maintained margins above 30%, increased our net cash position, and ended up with a strong balance sheet. With a healthy demand environment, we believe this provides a good platform to step up our investment to take advantage of our growth momentum in the market and strengthen the business over the next few years. As Jonathan mentioned, a strong finish in Q4 enabled us deliver financials for the full year at the higher end of the upgraded guidance that I gave in the last quarter. Let me start by analyzing the fourth quarter first.

Revenue from operations for the fourth quarter grew by 15% versus the same quarter in the previous year. This growth is on back of a strong fourth quarter in FY2021 when we also dealt with an accumulation of clients' projects from the previous quarter. This year much of the credit is due to a particular strong performance from the development services division. We are encouraged to see sustained growth in the research business as we upgraded our technology capabilities across platforms and therapeutic areas. As Jonathan mentioned we are continuing to expand our footprint in Hyderabad to ensure that we

have the laboratory capacity to absorb future growth. The manufacturing plant in Mangaluru is expected to be in a position to trigger key market regulatory approvals in the next 12 to 18 months. As you will remember, we have always described this plant as a long-term asset which will provide a full return on investment once it has proven regulatory track record and can attract a wider scope of projects.

Moving to EBITDA performance. The reported EBITDA margin for the quarter was at 34.3%, broadly at the same level as compared to the previous year of 34.5%. The expenditure on raw material increased by 390 basis points, as explained in our last call this increase is partially attributable to the change in mix with more early-stage manufacturing projects. The increase in cost is also attributable to price inflation on certain key raw materials. Employment cost reduced 5% year-on-year due to a special bonus position that we have made in Q4 last year to reward our staff for the efforts during the peak pandemic period. In addition, like many other companies we have seen some increase in staff attrition which has resulted in lower retirement benefit accrual during the quarter. With good forward planning our ability to hire has kept pace with this increase in staff turnover, which ensured that we were able to remain fully staffed to deliver client projects without any delays. Adjusting for these factors underlying staff cost increased by 9% year-on-year for the quarter in line with increase in number of employees. Our other expenses which comprise of selling expenses, IT cost, maintenance expenditure and other



general overheads are up by 24% from Rs.89 Crores in Q4 FY2021 to Rs.111 Crores in the current quarter. Our continued investment in increasing digital capabilities, expansion of commercial activities and the return to international travel led to an increase in other expenses during the quarter. We are also seeing the impact of higher inflation which is putting pressure on cost, and we expect to see this trend continue somewhat into FY2023.

Moving to hedge gains, the hedge rate for 12 months was Rs.77 per US dollar against the spot rate of Rs.75.5 per US dollar and this delivered an improvement in margin by 50 basis points. Overall, profit before tax growth was at 14% broadly in line with a total revenue growth. We kept our bills tight during the whole of pandemic period to ensure that operating leverage remained intact. As you will see in the guidance later this is set to change somewhat in FY2023 as we come out of the pandemic with increased confidence to invest in an accelerating growth in the coming year.

Turning to tax as mentioned in the previous calls FY2021 had a one-time tax reversal after a favorable court order which reduced the effective tax rate of FY2021 to 12%. The effective tax rate for FY2022 was around 18% and this increase of the effective tax rate provided a headwind for the PAT growth. Due to this one-time tax reversal in FY2021 our year-on-year PAT growth for the quarter stands at 7% although our underlying growth in profitability remained much stronger broadly tracking the topline growth.

Now let me proactively address one question I often get in my discussions. Over the past decade, Syngene's business has expanded both in size and diversity. A decade ago, the company was mainly a research services company. We now offer a growing range of services and solutions including integrated drug discovery, development and manufacturing solutions for both small and large molecules. Today we have a well-established position in the contract research market and a strong emerging presence in the contract development and manufacturing services. This is reflected in our business portfolio where a decade ago 80% of our revenue came from the research business. Despite the strong and consistent growth in research services, the share of research business now is 66% of revenue indicating a visible shift in Syngene's revenue mix towards development and manufacturing. While we are relatively new in the drug development and manufacturing businesses, we have seen encouraging results. As we scale up into commercial scale manufacturing for both small and large molecules, we expect the share of business from the services to further increase. FY2022 led the foundation, and we see FY2023 as an important year as manufacturing takes a larger role in driving future growth.

Let me now take some time to explain the full year performance of the company. Overall revenue from operations grew 19% year-on-year for FY2022. This growth in revenue from operations was driven by solid performances from all business division. Discovery services grew by 24%

driven by good traction across new and existing clients and the added momentum from the integrated drug discovery portfolio that Jonathan mentioned. In the dedicated centers revenue grew in double digits in FY2022. The renewal for five years of the contract with Amgen together with the 10-year contract extension signed with BMS in FY2021 provides a good visibility on future of these facilities. The development and manufacturing services grew by 21% year-on-year. In development services, we are able to strengthen our technical capabilities in process development for complex chemistry and extend our capabilities in oligonucleotide polymers and highly potent APIs. These have helped to build client confidence on scale up manufacturing for clinical supplies and win repeat orders. In manufacturing services, we have been investing in biologics adding key capabilities in process development and scaling up for clinical and commercial scale manufacturing. We expanded the manufacturing capability through commissioning a microbial facility and added capacity in mammalian cell manufacturing facility. While supply chain challenges and long lead-times constrained the biologics growth in FY2022, we expect things to improve in FY2023 and expect biologics to contribute an increasing share of revenues going forward. The growth reported in manufacturing services included the manufacturing of Remdesivir during the year. As Jonathan mentioned we do not know how the pandemic will play out in the future; however, we are prepared to

manufacture the product as long as the pandemic persists, but we do not expect it to play any key roles in our financials in the current year.

Now moving to margins, the EBITDA margin for FY2022 was at 31.9% compared to 32.7% in the prior year. The expenditure on raw materials increased from 23.4% of revenues to 28.2% due to a shift in the mix of our business towards manufacturing driven by early-stage development projects, the manufacturing of Remdesivir and acceleration of biologics manufacturing in the later part of the year. The increase in raw material cost was offset by other cost elements, which increased less than the revenue growth. Employment cost increased by Rs.58 Crores an increase over 9% to Rs.718 Crores as compared to Rs.660 Crores in the same period last year. The increase was in line with headcount additions and the salary increment during the year. As I mentioned a few minutes back, the increase was offset by year-on-year reduction relating to a special bonus paid at the end of FY2021 and due to lower accruals of retirement benefits in FY2022. Coming to other cost which consist of selling expenses, IT cost, maintenance expenditure, and other general overheads, this declined from 12.7% of the revenue in FY2021 to 12.5% in FY2022 driven by effective management of discretionary cost despite inflationary pressure. As the global markets open up for travel and other business activities resume their pre-pandemic levels, we expect some of the costs to increase as it is already visible in Q4.



Now moving to currency and the impact of our currency hedges. The company recorded an exchange gain of Rs.55 Crores for the full year versus a gain of Rs.17 Crores in the last year. This reflects the difference between our spot rate versus prevailing spot rate. As I mentioned earlier the hedge rate was Rs.77 per US dollar as against a spot rate of Rs.75 per US dollar during the year. In summary, for the full year EBITDA was at Rs.849 Crores versus Rs.736 Crores in the previous year an increase of 15%. Depreciation for the year increased by 13% in line with fixed asset addition. I will cover capex in a bit. Overall, our profit before tax increased 19% year-on-year, which is higher than the upgraded guidance as given in Q3. Profit after tax before exceptional items increased 10% year-on-year to Rs.420 Crores exiting the single digit PAT growth guidance given earlier. The effective tax rate for the year as I mentioned was around 18% compared to 12% in the previous year. As mentioned in my earlier part of the commentary, the onetime tax reversal in FY2021 due to change in tax position benefited the effective tax rate of FY2021. There are two other factors which are also contributing with increasing effective tax rate. There is a gradual increase in the tax rate at some of our units moved out of SEZ tax benefit period and also an increasing share of business is coming from locations not enjoying SEZ benefits. Adjusted for this tax rate, our underlying PAT growth would be very much in line with the PBT growth during the year.

Now let us move to some of the other items such as capex and cash flow. Investment during the year was Rs.621 Crores, approximately \$80 million and this included capital projects under progress and capitalization of lease rentals from long term lease arrangement. This is in line with upgraded guidance provided last year. Total assets capitalized during the year were around Rs.512 Crores approximately \$68 million. Out of the total \$80 million, we invested approximately 70% in the research business while we added laboratory capacity in Hyderabad in two phases and expanded facilities in Bengaluru as part of the contractual commitment for dedicated centers. Around 10% was invested in development services mainly in completing the clinical scale fill-finish facility of our formulation operating unit. Another 10% was invested in the manufacturing business mainly for the capacity addition of our fourth reactor in biologics as well as completing the microbial development and manufacturing facilities. The remaining investments were in common assets including added power grid capacity which is commonly used by all divisions.

Moving to balance sheet status, our balance sheet position is healthy, and we have a strong liquidity position. While our inventory levels have increased to Rs.179 Crores from Rs.60 Crores at the beginning of the financial year, this was by design to ensure that there is no disruption in client deliveries due to the supply chain delays and to compensate for the increased lead-time for materials in case of biologics. We expect to continue higher levels of inventory

for the last part of FY2023 in view of continuing disruptions in the global supply chain. Our net cash balance increased from Rs.647 Crores as of March 2021 to Rs.732 Crores as of March 2022 driven by increase in cash profit. This completes my commentary on the quarter and full year performance.

I will now move to FY2023 guidance and outlook for the year ahead. We expect revenue in FY2023 to grow in the mid-teens. This is after taking into account of the base effect of Remdesivir in FY2022 which helped the revenue growth. This will mostly play out in the first two quarters of FY2023. The underlying business growth is expected to be higher. This is obviously under the assumption that there is no more pandemic related disruption, and the evolving geopolitical conflict does not create any unexpected changes in the market access and supply chain. With the positive demand environment, we see FY2023 as a year to sharpen execution across all parameters to capture the business opportunities. This will require investments in talent, facilities and other services and we plan to incrementally invest to put Syngene on a strong growth path for the future. Operating investments in FY2023 will focus on building new scientific capabilities, IT and digitization initiatives and continuing to strengthen our commercial activities by expanding our presence in client locations in the US, Europe and other key markets. This will lead to additional cost in the P&L with a clear objective of accelerating growth in the coming years. While these investments will put pressure on margins during the course of the year the operating leverage from improved performance

from the development and manufacturing business will provide a balancing factor and we therefore expect EBITDA margins to be around 30%. This is close to 200 basis points valuation compared to FY2022 and we see this is a required step-up investment to accelerate our growth into the future years. With improved growth trajectory, we expect better operating leverage from FY2024. The effective tax rate, which was around 18% in FY2022, will gradually increase as units come out of SEZ and expansion happens outside of current SEZ units, so for modeling purpose please build an increase in tax over the next few years reaching up to 25% level. We expect FY2023 effective tax rate to go up by 200 to 300 basis points, but here I will give you a modeling input. While the effective tax rate is going up, we have MAT credit balance of Rs.173 Crores which will be utilized over the next few years and this will enable us maintain the cash outflow and the income tax at the minimum alternate tax level. Due to increase in tax we expect to see some dilution of PAT margin and we expect PAT growth in FY2023 to be in single digit. Capex is expected to be around \$100 million in FY2023 with a bulk of capex investment focused on adding biologics manufacturing capacity, laboratory space for future expansion of the research business and capability addition across our service lines. Our investments in infrastructure have closely followed demand to debt. Boosted by a strong demand environment this year we expect to get ahead of the demand curve and create some extra capacity to ensure that we do not lose business due to lack of infrastructure at our end.



Having covered the overall guidance for FY2023 I would now like to set expectations for the Q1. You will recollect that Q1 FY2022 was a big quarter where growth was driven by couple of factors, clients restarted projects that was put on hold in the previous year due to pandemic and also due to the manufacturing of Remdesivir. As a result, we posted last year Q1 a 41% revenue growth. At present with the pandemic waning and the benefits accrued from Remdesivir in Q1 last year is not expected to repeat again in Q1 of this year. Hence you may see a year-on-year decline revenue in the Q1. This will also likely depress the profit line for the Q1; however, our full year guidance takes account of this impact of Q1 both on revenues and profitability and we still expect to go at mid-teens for the full year. This indicates that for the remaining nine months our effective growth rate would be higher, which is the model at your end. With this I will conclude my commentary on the quarterly and annual performance for FY2022 and the future outlook and guidance for FY2023. We can now open the floor for questions.

**Moderator:** Thank you very much Sir. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Alankar Garude from Kotak Institutional Equities. Please go ahead.

**Alankar Garude:** Good afternoon, everyone. Sir my first question is given the strong demand environment on the biologics side where are we in terms of biologics

manufacturing capacity, you mentioned about doing some capex in FY2023 pertaining to biologics but may be if you could just highlight where are we in terms of liters of capacity right now what is the number you are looking forward to in FY2023 that would be helpful and I have a follow-up one I will just maybe come back after your response?

**Jonathan Hunt:** Give me the follow-up question first and then we can have a think about it.

**Alankar Garude:** Sure. So, the follow-up is broadly would you say that in terms of progress in this business is it trending in line with your revenue and profitability assumptions which we had in our mind when we started this business about four to five years back?

**Jonathan Hunt:** No, I think it is a little bit behind where I would have liked it to have been, but I think two years of the pandemic has slowed most things down, but I would not particularly put any great importance in a retrospective comment. I think where we are today is exactly where I would like to be. Rise in demand signals in the market, spare capacity, good capability and I think if you pass through the comments that we have made on the call and in the guidance, you can see that we are clearly sending a direction in travel which is I think our manufacturing business is starting in FY2023 going into FY2024 will become increasingly visible and be a driver of growth. We always wanted a twin-engine plane rather than a single engine. There is nothing wrong with the performance of the research services businesses it has grown beautifully over

many, many years, continues to add value to its clients, but I think now is about the time that we will start to see the manufacturing divisions whether it is biologics or small molecules, but I think led by biologics, we will start to pick up some of that slack and help us build momentum. It will be through FY2023. I think there is a subtle comment in the guidance which suggests that FY2024 which show increased growth and beginnings of operating leverage. If you pass English and turn it into excel, I think that gives you some intermodal.

**Alankar Garude:** Sure that is helpful and my second question is more on the investments which you are planning in FY2023 so just checking we had some plans of expanding our international sales force over the last six to seven quarters so where are we on that and these further investments which you are talking about in FY2023 would it be basically a continuation of that and then of course more investments in some of the other areas, which are outlined in the presentation so should we take that more as a continuation?

**Jonathan Hunt:** You should. I am happy to give you a further comment. Your question is right. We have done some increased investment in sales and marketing. Certainly, you take a look at things like our website, go and have a look at some of the digital assets, some of the new channels and digital channels that we put in that has gone from not really being there three or four years ago to some quite sophisticated digital marketing that is one of the areas that we have

invested in. We now do a regular series of sort of client outreaches, digitally enabled scientific lectures, really good ways of connecting and showcasing our capabilities in our science, adding a little bit of headcount we are also going to add more in the year ahead it is competitively sensitive so I am not going to give you numbers, but you will see the impact on the P&L this year which is why we gave you such clear guidance on where we see the EBITDA margin for the year. That is going into a whole range of things, but to your question continued commercial expansion is one of them and I think as the world comes out of the pandemic there is an opportunity to catch that wave of rising demand and I would much rather invest and give a clear message to you that margins are going to be a little bit suppressed this year then not invest and miss the wave, so it is much more around business growth foundations in 2023 becoming operating leveraging growth in 2024 and beyond, so there is a strategic thought behind those investments.

**Alankar Garude:** Sure, that is helpful Jonathan. Thanks, and all the best.

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

**Prakash Agarwal:** Good afternoon. Thanks for the opportunity. My question is on the gross margin side cost of goods sold so we have seen some spike there; what is the main reason behind this we being service company and what is the near-term outlook are we continue to see higher cost of goods sold on this?



**Jonathan Hunt:** We are principally a services company, but of course remember unusually for us because of the pandemic over the last year we have in fact also been a products company not core to our business, but we have been making and distributing Remdesivir as part of our response and our contribution to the fight against COVID-19 and that may well be a clue to why some element of our P&L has picked up more operating and raw material costs.

**Sibaji Biswas:** Thanks Jonathan. Prakash I kind of highlighted this in my commentary but I will try and give an explanation now. As I said there are a few factors that impacted raw material cost. It moved up by 3% of revenue year-on-year. One of them as Jonathan just mentioned Remdesivir. In one of the earlier calls, I remember I gave a clear understanding to everybody that Remdesivir's raw material cost is almost 50% of the final revenue so that definitely impacted in the early part of the year. Also what happened is that our project mix changed and this can happen from one year to another year so as you do more early stage projects the raw material cost as a percentage of revenue is higher and as they move forward it was a more matured stage that goes down but this is also playing along with another factor is the increasing of manufacturing and development revenue as a percentage in our revenue mix so there are multiple factors but over a period of time we will see this stabilized, actually I expect FY2023 to be very similar to FY2022 because based on our understanding this year is going to see a stable pattern of raw material cost as a percentage of revenue.

**Prakash Agarwal:** Question was more from Q4 where there was no Remdesivir sales.

**Sibaji Biswas:** That is true Prakash, but we mentioned that one of the biggest drivers of Q4 revenue has been development services and clinical manufacturing under development services that also has a high raw material cost attached to it so again it is a function of the revenue mix in a particular quarter.

**Prakash Agarwal:** Fair enough and just to call out what would have been the Remdesivir sales for the year?

**Sibaji Biswas:** So, we have given you an understanding of what the year-on-year manufacturing growth and as you would see that is more than what we have seen in the past so please go and calculate that. We do not give exposure to that level, but it is built into the manufacturing growth that has been disclosed.

**Prakash Agarwal:** Great thanks for that and lastly on the Mangaluru facility so I hear that you have said operating leverage kicking in from fiscal FY2024 so is that a key reason why that leverage comes in or you are talking about from the base business perspective and what is the update on the Mangaluru side especially from the US supply perspective?

**Jonathan Hunt:** On the Mangaluru side same guidance we have given in four consecutive quarters it has got a regulatory pathway we are making good progress on that. I think 12 to 18 months from now is the point where we would expect a major

regulatory approval and downstream of that is when you should start to see that plan become attractive supply point for global clients. The operating leverage I was alluding to in FY2023 clearly is not linked to Mangaluru so it must be linked to something else and on the manufacturing side, that leads you very clearly to biologics. We are seeing good demand signals in the market, delighted to update you on the progress of that through the year and then I think the guidance gives you quite a clear suggestion that both revenue growth rates and margins start to improve. Beyond FY2023, but I think FY2023 is a pretty good perfectly good topline growth, and our margin structure looks very well compared to many, many of our competitors around the world.

**Prakash Agarwal:** Great. Thank you and all the best.

**Moderator:** Thank you. The next question is from the line of Tarang from Old Bridge Capital. Please go ahead.

**Tarang:** Thank you for the opportunity. Three questions from my side. Jonathan if you could give us a sense on your IDD platform SynVent, how many of your peers offer a proposition like SynVent and some sense on how you are differentiating yours; that is number one? Number two you have spoken about continued investments looking at the growth outlook how should we see this because I would personally think that the quantum would not be materially high in contrast to how the investment cycle has taken place over the last five years given how most of the manufacturing capacities remain to

be utilized and the third given the demand environment would it be fair to presume that in FY2023 your ex Remdesivir business could post high teens early 20% growth on a year-on-year basis? Those are the three questions from me thank you.

**Jonathan Hunt:** Super question. I will take the first and the third. I am looking at my colleagues and seeing which one is volunteering for the middle one. Let us do them in reverse order, so the last one is a simple yes. Your question was if you could take Remdesivir or take the pandemic out of our business what will be the year-over-year growth look like, would it be ahead of the guidance that we have given you? Clearly it would. I am not going to give you a point estimate, but I would not demure or debate it with your number of being above 20 and into that sort of range. The organic underlying growth the outlook is pretty strong. Going to your first question IDD the platform is one of those words that sort of mean something to one person and can confuse everybody else so do not think of it as a platform in the sense of a particular proprietary technology or piece of kit. It is a combination of a whole bunch of things that we can do brought together into a service offering. Fundamentally, SynVent is most attractive to companies where what they really want is a scientific equal, a partner that can drug hunt with them and for them and has all of the capabilities to take that from initial scientific idea through ideation into finding a molecule, confirming the ability of the target all the way into the I&D staging and getting a drug into human testing for the first time. That is



essentially what we are trying to do and are doing with SynVent. It has got some particular resonance at the moment. Because of our scale, because of our capability, and because of the operating cost advantage we have, if you are a biotech company in the US at the moment that has got funding, but is looking forward at the cash burn rate and thinking about, how do I make my funding last so much longer, given that for many there is a nervousness about refinancing. It is a fantastic opportunity because in most cases if we did the work within this indent capability rather than did that work in our clients labs say in the US or Europe we can make that cash burn just that much lower and that gives them real strategic visibility, so that would be a practical application given the current conversations you hear in the US biotech community, financing and refinancing. Another group that is particularly interested, there are just a lot of companies formed now with an asset like science heavy strategy. They are backed with venture capital firms or whoever do not particularly want to put money into the investment to buy infrastructure buildings, but they do want to really move the science as quickly as they can. That sort of partnership with us with SynVent fits really nicely. We got all the scale, all the capability and all the infrastructure anybody would need but they are buying it by the day and by the hour philosophically rather than having to spend the first year or finding a new company, building, buildings, signing leases and all of those things so it can increase the speed. It gets you to decision points that much quicker if you are startup biotech and it relieves

your owners of all of the concerns if the science does not work out and we are left with an overhang of infrastructure, people and plants and equipment because we just have to role that back in. Does that give you enough because that was quite a long answer on IDD, but I hope I can try and convey what we are trying to do, or you asked also is there anybody else to it. Yes, I would say I point to a company like Evotec in Europe, and they have got very sophisticated capabilities. I have got no shame in saying that they have got their first and were ahead of us, but I do think we have closed an awful lot of the capability gap, there is plenty of space in the market for more than one. I think some of the Chinese companies do it. I am less certain that any of our local competitors are at that level of sophistication.

**Tarang:** Got it thanks.

**Sibaji Biswas:** So, I think there was one more question which was on the continued investment. As I told you FY2022 we spent around 80 million, close to 70% of that went into research and business expansion. We expect to spend similar level of capex close to 50% of \$100 million guidance on research and in research, we are very clear about our criteria for spending. I have always guided that we look for an asset turnover of 1x in 18 to 24 months, I firmly stand by that. We are seeing already that playing out in our business and we are seeing a strong demand environment in research. We will keep on spending that kind of money with those 18 months to 24 months 1x turnover

perspective going forward. Of the remaining 50%, a large part of that will go towards biological asset and capacity for manufacturing does not come up in a year so we are actually going to spend this money preparing ourselves for capacity creation in FY2024 and beyond and this we are able to do because we are feeling lot more confident as a leadership team on the potential of the biologics business and that is where significant of the rest of the money is going to go. The rest will be on other expansions and creating digital capabilities at our end, so that is broadly what is the capex guidance constituted of. I hope I answered your question.

**Tarang:** Thanks and looking forward to how this business evolves thank you.

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

**Harith Ahamed:** Thanks for the opportunity. I was looking at the average employee cost for the business and it has been flat for the last couple of years in fact in FY2022 there has been a decline over FY2021 so any colors that you can provide on this, I see that the number of scientist count has increased by roughly thousand in the last couple of years the average overall employee cost has been flattish?

**Sibaji Biswas:** The overall employee cost for the year is not flattish if I am not wrong it increased by close to 90%.

**Harith Ahamed:** On an average?

**Sibaji Biswas:** On an average so essentially, I will repeat what I pointed out. There are two factors to that. In FY2021, we did give onetime bonus towards the end of the year for kind of compensating our employees for the challenges they had to go through during the pandemic period that was one-off expenditure in FY2021 we do not have it in FY2022 plus the retirement benefits that we have in our balance sheet which comes out of actual valuation has also gone down that benefited us in Q4 and is also playing out for the full year, so these are the two broad expenditures the other things play out in the salary mix so nothing to comment on.

**Harith Ahamed:** I was asking how much of our revenues are from the FTE engagement model versus the other engagement models that we have with our clients?

**Jonathan Hunt:** We do not split the numbers, but I will give you a general sense of it. If you think about the business in four divisions dedicated centers, discovery services, development and then manufacturing. Dedicated centers everything is an FTE model effectively, the definition of how it operates. If you look then at discovery services, the vast majority would be FTEs at the moment but there is a sizable and growing FFS or Fee for Service element to it. Strategically, I do not really see a big difference between the two models; it just depends on how the client wants to engage so I do not put too much importance on it. Development and manufacturing are principally FFS free for



service business is because the nature and the unit of work is a project or product or batch, so you are not really employing people to do specific things you are buying a particular outcome. Can I have a particular piece of development were done, can I have a clinical trial product made or can I have an antibody discovered and developed and manufactured. Hopefully that gives you a sense of it.

**Harith Ahamed:** That is helpful and last one if I may. In one of your slides, you have listed customers from non-Pharma segment like animal health and agrochem so how big is this piece the non-Pharma piece for us today and how do we see this progressing?

**Jonathan Hunt:** Good question. I do not have the specifics of how big it is but to give you a sense of it. Animal health is so close to human health for all intents and purposes scientifically, fundamentally same capability, same infrastructure, and same sort of scientific acumen. The only thing that has really changed is the end species that the product and the science applied to it, humans into a whole range of things. We have got, I am reluctant to say, market leading positions in animal health it is not an industry group that traditionally and by traditionally, I am looking over the long term five and 10 years has done a lot of outsourcing. I do think structurally and again if it is an industry, you spend any time looking at you will know that many, many animal-health companies or divisions within big Pharma companies a decade or so ago and as those

sorts of consortium type companies have disaggregated, they have been spun out and there are many, many companies on their own. That then has prompted them to think about where do they tap into innovation, how can they tap into innovation more globally? If you think about it, they have gone from being part of a great big scientific organization and now they stand alone that I think is creating opportunity. I am not going to give you a percentage of our business split but I do think it is an interesting area that is adjacent to what we do and is one that we do pretty well and some of the others, there are many other industries that we connect through consumer goods companies. We have done interesting work in helping people with polymers that may form the next generation of contact lenses that is a scientific problem that we can address. We have done work on chemicals that have been used in the aviation industry, coatings used in car manufacturing, so there are a lot of things. Whatever you needed a high science approach to a deeply complex scientific problem, we may well be able to help. Those are peripherals to our core business which is deep science in the human space.

**Harith Ahamed:** Thank you very much Sir. That is all from my side.

**Moderator:** Thank you. The next question is from the line of Abhishek Sharma from Jefferies. Please go ahead.

**Abhishek Sharma:** Thanks for taking my questions. I just wanted some more color on biologics manufacturing. You said this will add revenues in FY2023 so currently here

what are we engaged in, is it non-GMP manufacturing for developed markets like intermediates or this is trial supplies or is this for emerging markets? By when do you expect FDA inspection for your biologics specialty?

**Mahesh Bhalgat:** So, in terms of what are we doing with utilization of our current capacity, the maximum amount of work that we are doing is with regards to providing clinical supplies, so this is GMP material that we are manufacturing that goes into clinical trials. In terms of utilization, we are utilizing both our mammalian capacity for that and our microbial capacity for that. Mammalian of course is used specifically to produce the monoclonal antibodies and that is the highest level of demand that we have. That is also the maximum capacity that we have. As for your question around US FDA, I am not going to comment on the specific timing of that because, as you know, the way the US FDA approval process works is based on a client who wants to produce commercial material which then triggers a US FDA inspection and so that is actually something that will be based on getting to that particular milestone.

**Jonathan Hunt:** So structurally you will understand it from the business as a service provider. We do not control that. It always sits with the clients decide their regulatory strategy and their regulatory timelines; I do not think it will be appropriate for us to comment.

**Abhishek Sharma:** That is clear, and the second thing is jumping trial supplies that we saw in 4Q was this related to biologics or was this on the small margin side?

**Jonathan Hunt:** The question is, did we see a step up in clinical trial supplies in the Q4 and this was for small molecules or biologics.

**Sibaji Biswas:** If some are small molecule development phase biologics as I mentioned the execution picked up towards the end of the year and we will see more of biologics coming through the next year, but this was from a small molecule space.

**Abhishek Sharma:** Got it and the last one if I may what is the current bioreactor capacity on the biologics side and where would you have this by the end of FY2023?

**Jonathan Hunt:** Sufficient would be the answer to me the rising demand that we see. That one is commercially competitively sensitive, so I am not particularly keen to put that in the public domain.

**Abhishek Sharma:** But you used to disclose the bioreactor capacity till last quarter, 10kl is what I remember from our last quarterly call, has there been an increase on that?

**Jonathan Hunt:** I am not sure we did comment on that, but it still would not change the fact that I am not about to give you the installed capacity base. I am happy to guide you through the year as we see progress and we can pick that up on future courses.

**Abhishek Sharma:** Sure, thank you.



**Moderator:** Thank you. The next question is from the line of Shrikant Akolkar from Asian Markets Securities. Please go ahead.

**Shrikant Akolkar:** Thanks for taking my questions. Just one question on biologics manufacturing, if you can call out the capacity utilization in the Q4 and may be in FY2022?

**Jonathan Hunt:** I think there is enough in our guidance of revenue growth topline mid-teens dropping down to single digit PAT with an outlook for FY2024 have improved revenue growth compared to FY2023 and operating leverage.

**Shrikant Akolkar:** I will joint back in the queue. Thank you.

**Moderator:** Thank you. The next question is from the line of Rohan Vora from Purnartha Investment Advisors Private Limited. Please go ahead.

**Rohan Vora:** Thank you for the opportunity. My first question was in regard to the capex plan in FY2023 of \$100 million; I remember you had stated that 50% of it is going to go towards the research side so I would like to have the breakdown of the remaining 50% between development and manufacturing businesses?

**Jonathan Hunt:** I think we said 30% was going into the manufacturing biologics side.

**Rohan Vora:** The balance would be development, right?

**Jonathan Hunt:** If we had a miscellaneous category, it would be that. So, 50% of the 100 million into research services type business, 30% into biologics, the remaining 20% spread across the business but covering so many segments we would break them all down.

**Rohan Vora:** Do we also expect so as we have 30% EBITDA margin guidance for FY2023 so does some of it come down from gross profit margin dilution as well?

**Sibaji Biswas:** As I said I expect the raw material cost to remain very similar to FY2022 so if you are calculating gross profit as revenue minus raw material, the answer is no. It depends on what you are adding before gross profit but yes, the EBITDA margin dilution which is going to come from as we mentioned increased travel, activities relating to pre-pandemic level and our willingness to invest in commercial execution and other areas of technology upgradation.

**Rohan Vora:** Thank you so much.

**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 her closing comments. Over to you Madam!

**Neha Shroff:** 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:** Thank you. Ladies and Gentlemen on behalf of Syngene International that concludes this conference call. We thank you all for joining us and you may disconnect your line.