Syngene

Putting Science to Work

“Syngene International Limited

Q4 & FY ended March '25 Financial Results Conference Call”

April 24, 2025

Syngene

Putting Science to Work

CHORUS CALL

MANAGEMENT: **MR. PETER BAINS – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – SYNGENE INTERNATIONAL LIMITED**
MR. DEEPAK JAIN – CHIEF FINANCIAL OFFICER -- SYNGENE INTERNATIONAL LIMITED
MS. NANDINI AGARWAL – SYNGENE INTERNATIONAL LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Q4 and Full Year ended March 2025 Financial Results Conference Call of Syngene International Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Nandini Agarwal. Thank you, and over to you, ma'am.

Nandini Agarwal: Good morning, everyone. Thank you for joining us on this call today to discuss Syngene's fourth quarter and full year results for FY 2025. To discuss the financial and business performance for the period, we have on this call today, Mr. Peter Bains, Syngene's Managing Director and Chief Executive Officer; and Mr. Deepak Jain:, Chief Financial Officer. After the opening remarks, Peter and Deepak will be happy to answer any questions you may have.

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

With this, I now turn the call over to our Managing Director and CEO, Mr. Peter Bains.

Peter Bains: Thank you, Nandini, and good morning, everyone, and thank you for joining the call today. Before I begin, may I say that it's a great privilege to be back at Syngene after almost 10 years and exciting to return at such a dynamic time in the industry and Syngene's ongoing growth story.

With that, let me now turn to today's agenda, where I will start with an overview of the fourth quarter results before summarizing the full financial year. I'll also share my thoughts on the year ahead before handing over to Deepak to give you a more detailed financial overview. Syngene closed the year on a solid note with reported revenue from operations of INR1,018 crores, which is an increase of 11% year-on-year and 8% sequentially.

The quarterly operating revenue crossed the INR1,000 crores threshold for the first time. Operating EBITDA was up 8% year-on-year and 21% sequentially to INR344 crores. Operating leverage was strong with an operating EBITDA margin at 34% for the quarter. Reported profit after tax and exceptional items for the quarter was down by 3% year-on-year to INR183 crores.

The highlight of the quarter was the acquisition of the state-of-the-art biologics manufacturing facility in the United States. Within the global CRDMO market, large molecule biologics development and manufacturing is the fastest-growing segment. The acquisitions that we've made plays into this market opportunity and Syngene's total single-use bioreactor capacity for

production of monoclonal antibodies has now increased to around 50,000 liters, enabling us to cater to the growing customer and market requirements.

Establishing a commercial biomanufacturing facility footprint in the United States also brings us closer to this important market and helps in derisking the supply chain as well as providing improved flexibility.

Turning to the full year results for fiscal '25. This has been led by reporting revenue growth of 4%, which is in line with our January guidance and reflects a resilient performance in a challenging year. After a muted first half, driven by sectoral downturn in the U.S. biotech funding, we are encouraged to see a return to growth momentum in the second half of the year.

In research services, which grew 2% year-on-year in fiscal '25, we see a continuation of the theme that we have discussed throughout the year. The central theme has been the continuing pipeline build of pilot programs deriving from large- and medium-sized pharma companies as they rebalance their China Plus One supply chain network.

Here, we have been successful in converting the majority of those pilots into full program contracts, which focus on our core scientific capabilities in synthetic chemistry, drug metabolism and pharmacokinetic studies and assay biology. The pipeline build of new pilot programs is continuing and will flow into 2026.

We also continue to make technology upgrades in research services to enable scientific excellence, improved competitive positioning and deliver customer value. A good example here would be integrating advanced automation within our DMPK operations.

Syngene's large molecule biologics business has delivered another strong year performance with FY '25 growth over 20%. In the second year -- second half of the year, we have concluded several new collaborations with clients to execute integrated biologics development and manufacturing projects across both human and animal health that have the potential to feed into the pipeline for future commercial manufacturing. As we bring more capacity online in India and work towards getting our new U.S. site ready for production, we see significant headroom for further growth.

Our existing commercial manufacturing projects for animal health with Zoetis also continues to perform well. In the first 2.5 years of the 10-year commercial contracts and as is normal during the prelaunch and launch phase of the new product, we have delivered commercial production volumes in excess of the annual 10-year run rate of around 50 million revenue as guided earlier.

Adjusted for the inventory buildup during this phase, we expect the volumes and revenues to now moderate to around the annualized contract average in FY '26. In small molecule development and manufacturing, it has been a mixed year, but it's finished with a positive outlook.

Within the year, step backs related to client clinical programs and reduced annual commercial manufacturing volume demand has led to net year-on-year revenue decline of 24%. However, as we exit fiscal '25, we have now added a series of new clients and pipeline fill across both

development and manufacturing that will lead to a step-up in capacity utilization in our small molecule facilities, including Mangalore.

Let me now comment on our guidance for fiscal '26. As I've described, Syngene's performance in 2025 has been resilient, and we are exiting the year with both good revenue momentum and broad-based improved pipeline visibility and potential. Consequently, and after adjusting for the client inventory rebalancing described, we will see in our biologics commercial manufacturing business, we are expecting to see underlying revenue growth in the early teens.

This growth is expected to be broad-based and delivered across our research services, small and large molecule CDMO businesses. On a reported basis, our revenue guidance is in the mid-single-digit range. While the macro environmental variables, including the recovery of biotech funding, big pharma restructuring, uncertainties related to the U.S. Biosecure Act and global tariffs will continue.

We remain confident with Syngene's diverse and well-balanced portfolio across research, development of both large and small molecule manufacturing services, we are well positioned to navigate these dynamics and continue our growth story.

With that, I will conclude my opening remarks and now hand over to Deepak to provide further details about the financials. Deepak?

Deepak Jain: Thank you, Peter, and good morning, everyone. I will cover financial performance for quarter 4, full year FY '25 and the guidance for FY '26. We continue our growth trajectory for Q4 '25 with revenue from operations increasing 11% year-on-year, which translates to approximately 7% increase in constant currency. Sequentially, it is a growth of 8% over third quarter.

Growth was driven by strong performance across business. Research services grew by 8% year-on-year, led by the conversion of pilot programs and demand from other customers. CDMO business grew by 7% year-on-year led by strong performance in large molecule CDMO supported by growth across commercial manufacturing and integrated PD plus manufacturing programs. However, the growth was partially offset by a decline in small molecule CDMO business.

Moving to profitability for the quarter. Operating EBITDA increased by 8% with operating EBITDA margins at 34% comparable to last year's 35%. Within specific cost items, raw materials costs stood at 23.1%, of revenue benefiting by yield benefits and lower pass-throughs, though higher than compared to 22% in Q4 of FY '24, which had the benefit of a lower base due to reversal of inventory provisions of prior quarters.

Going forward, we expect material costs at around 26% to 27% of revenue. Staff cost was at 27.4% of revenue comparable to 27.6% in quarter 4 FY '24. With our ESG initiatives, other direct costs primarily consisting of power and utility costs declined to 2.2% of revenue this quarter compared to 2.7% in quarter 4 FY '24.

As we continue our focus on digitization and automation, other operating expenses increased to 13.1% of revenue compared to 12% in quarter 4 last year. Forex loss decreased to 0.5% of

revenue compared to 1.1% last year as the hedge rate at INR84.9 was less than the average spot rate of INR86.6 for the quarter.

Depreciation charges decreased by 4% year-on-year, benefited by a change in accounting estimate in Q1 '25, which was partially offset by new facilities coming online. Operating profit or EBIT increased by 15% in comparison to last year, benefiting from the increase in revenue and lower depreciation. Other income increased by 18% due to increased interest from deposits and gain on sale of short-term investments compared to last year. Interest expense increased by 24% compared to the previous year as a result of finance component of the leases.

Turning now to tax. With the facilities coming out of favorable base, and the change in business mix, our underlying effective tax rate stands at around 23.8% for this quarter compared to 20.8% in Q4 FY '24. Reported tax before exceptional items decreased by 3% year-on-year to INR183 crores.

Now we turn to the full year performance. Reported revenue from operations grew by 4% and 2% in constant currency, in line with the guidance that we updated in January 2025. As Peter highlighted, growth was driven by both research and CDMO businesses.

Talking about the revenue breakup, Research Services remained stable, contributing to 61% of the total revenue, consistent with last year. Our large molecule CDMO business saw a solid uptick with its revenue share increasing to 25% in FY '25 from a 21% in FY '24, primarily driven by the ramp-up in commercial volumes.

The PRD projects from other clients, which contributed to 40% of the growth of the Biologics business. On the other hand, small molecule CDMO contributed to 12% this year, down from 16% in the prior year. Operating EBITDA margins were at 28.6%, in line with the guidance of high 20s.

Raw material cost as a percentage of revenue improved in FY '25 compared to FY '24, driven by change in business mix and improved yield in biologics. Other direct costs improved with our focus on green energy initiatives. However, this was offset by increase in staff costs and other operating expenses as a percentage of revenue in FY '25 as we continue to invest in leadership positions, commercial teams and digital initiatives. Overall, FY '25 margins also benefited by narrowing of the hedge loss as compared to FY '23.

Other income decreased due to lower cash balance as a result of acquisition of Stelis Unit 3. EBIT was flat at INR681 crores. Reported PAT before exceptional items for the year was down 8% to INR475 crores. However, adjusted for one-offs relating to interest income on income tax refund, expenses relating to the acquisition of the U.S. facility and reversal of the income tax provision of in FY '24, the underlying PAT increased 1% year-on-year.

Moving now to capex. We executed a $48 million capex and including the acquisition of the biologics facility in U.S., the spend was approximately $85 million during the year. About $24 million, i.e., almost 50% of the base capex, excluding the U.S. site, was invested in areas such as ADCs, peptides and completion of new biologics lab in Hyderabad and other contractual obligations that we have with our clients.

Around 25% was invested in biologics towards upgradation of Unit 3 and expansion of our PD labs. Unit 3 is now ready for operations and is awaiting regulatory licenses. We expect the capitalization to be done in Q1 FY '25 -- sorry, FY '26. We invested -- so let me repeat that. Unit 3 is ready for operations and is awaiting regulatory licenses, and we expect capitalization to be done in Q1 FY '26. We invested nearly 15% in small molecule, primarily towards capability builds in animal health facility and expansion in PRD labs. The remaining capex includes investments in digitization and automation.

Our balance sheet continues to remain strong with an increasing net cash position of INR1,279 crores as of March '25 after acquisition of the biologics facility in Baltimore, U.S. that was fully funded through internal accruals. This reflects the underlying strength of our business as well as our ability to drive good financial control.

Now coming to the guidance for next year. We expect FY '26 to be a year of -- to be a transient year with uncertain short-term macro environment building in the recovery of biotech funding, big pharma restructuring and tempering of urgency on the Biosecure Act. As Peter highlighted, our underlying business growth remains strong with revenue growth in the early teens, driven by performance across research and CDMO businesses.

Adjusted for the need to balance client inventory in the large molecule commercial manufacturing, our reported revenue growth is likely to be in the mid-single digits. We have invested in building capabilities both in India and the acquisition of the biologics facility in the U.S. to strengthen our leading position in the biologics market.

With the new facility coming online and the ramp-up of the -- over the couple of years, as guided, we expect margins to moderate in the near term. To highlight that, these were the asset acquisitions, and hence, the capacity utilization will have a gestation and a ramp-up period.

Operating EBITDA margins is expected to be around the mid-20s for FY '26. Effective tax rate is expected to increase to 26% in FY '26 as the SEZ units come out of tax holidays. With increase in depreciation and effective tax rates, we anticipate a year-on-year decline in PAT in FY '26.

We will continue to make investments in building capabilities and aligning to market opportunities and plan to invest around USD55 million of capex in FY '26. We have capacity headroom available across businesses to cater to the guided growth.

Around 40% of the investments will focus on research services, expanding scientific capabilities, automation, contractual obligations with the clients, apart from investments for growth beyond FY '26. Around 35% of the capex will be in biologics, including the upgradation of the U.S. facility and 15% of the capex will be invested in small molecule CDMO business across capability builds towards ADCs and replacement capex.

We will continue to invest in digitization and automation to enhance our productivity and efficiencies in our business. In summary, we are looking forward to a broad-based underlying revenue growth in a year of uncertainties around the macro environment. We expect FY '26 to be a transient year for Syngene as we operationalize our assets towards a robust growth in the coming year.

This concludes my remarks. I'll now open the floor for questions. Thank you.

Moderator: The first question is from the line of Dr. Kunal Dhamesha from Macquarie.

Kunal Dhamesha: The first question on the top line growth. So, we have been suggesting that we have seen good momentum in terms of the new RFPs, and we have converted majority of these new projects into a long-term agreement. But then it's not reflecting at least in our guidance, right? So, are these very long gestation period projects wherein they will have an impact maybe a couple of years down the line? How should we think about it?

And then given that biotech funding has not recovered too much, at least in 2025 year-to-date, it's still down. Is it that the number of RFP in the market has kind of reduced, though we are seeing growth over what we are -- we used to see? So basically, TAM has reduced, but we are seeing more traction. How to think about all these variables, let's say, for the next couple of years?

Peter Bains: Thank you. I'll start on the response to that question. Deepak may add some additional commentary. Let me break the question down. The first question is around RFP pipeline. and gestation. The second question is about whether biotech funding has stabilized and the implication of that to RFP pipeline. So, on the first part of the question, these RFPs are generally for pilot projects.

And these pilot projects are the opportunity for Syngene to demonstrate to a client its capabilities, its scientific prowess, its technical prowess and so on so forth. And they convert into programs and those programs can follow an evolution to bigger and bigger business opportunities. It would not be atypical for a pilot program on conversion to a full program to have an increase of 4x on an FTE illustratively, for example.

And they can take time for the pilot project to work through and then for the program to evolve along a discovery or a development continuum. So those will -- each program, each pilot will follow that process to become a program and then each program will follow that process to grow.

In the second half of fiscal '25, we've seen a strong pipeline build in discovery services of pilot programs, and we've achieved a high success rate in converting -- those will take some time to play through, but there are a good number of them.

And in addition, we're carrying through from '25 to '26, a good number of pilot programs, and we would hope to get the conversion rate at the same level. And those, again, will layer on the build throughout 2026. So that is the way to potentially look at the evolution of the RFP to pilot and the pilot to program and the sequence of how that can grow as a business opportunity.

Now the number of RFPs related to biotech funding, the VC biotech movement has varied, and we've seen U.S. VC biotech funding fluctuate more widely in the last 2 years than it has in the previous period of time other than COVID. We're also seeing RFPs derived from large and midsized pharma companies looking at rebalancing their collaboration networks around China Plus One.

So we're seeing a good mix effect of both of those, and that is ensuring that we have, I think, a very strong pipeline moving into 2026. And the visibility of that pipeline and the potential of that pipeline is strong. And it is that, that is underpinning our confidence in our outlook that the underlying growth in our discovery services will be in the early teens in 2026, building on that pipeline and conversion layering that on top of the existing business that we have in '25 that carries through into 2026.

I think that's the picture to provide an answer to your question, Dr. Kunal. Does that answer your question?

Kunal Dhamesha: Yes, yes, it broadly answers my question. Just a follow-up on the EBITDA margin guidance. I understand that there will be operating costs related to the new plant, Unit 3 as well as the U.S.-based plant till the time they ramp up, this thing will continue. But is it also a function of a lower potential lower biologics revenue given the inventory normalization that we are expecting next year?

Peter Bains: I'll ask Deepak to respond to you, Dr. Kunal.

Deepak Jain: Majority of the drop that we are seeing in EBITDA margin comes from the new facilities that we are going to take on board, right.The operational costs that we will have. There will be obviously some impact coming from the large molecule inventory correction that we spoke about. But majority, to answer your question, will be largely on account of the operating costs that will come on account of the new facilities.

Kunal Dhamesha: And just a last follow-up from my side, if I may. How long should we kind of think about this operating drag continue? Is it till the time that these facilities undergo regulatory approvals once we get U.S. FDA or EMA approval or we should start seeing the operating leverage kicking in? How should we -- what are the time line or the milestone we should look at?

Deepak Jain: So the way I think we should think about this is the fact that these are manufacturing sites, and we've given a direction of when these sites will become operational, right.So the Unit 3 that we acquired a year or so back should get operational this year, which means capacity will start getting utilized. We had also spoken about the site that we acquired in Baltimore to get operationalized in the later half of this fiscal.

And therefore, as and when these sites get operationalized and its capacity starts getting utilized, you will start seeing the drag come down. Obviously, the endeavor will be to see how fast the capacities really get utilized. And in some shape and form, that's factored into the revenue projections that we've given.

Moderator: Next question is from the line of Chirag Dagli from DSP Asset Managers.

Chirag Dagli: Sir, as you've given some color around FY '26. So FY '27, given whatever we've seen and the constant capex that we are continuing to do and we do more of that in FY '26 as well. Can you give us some sense of how different FY '27 should be or beyond FY '26 should be versus the last 3, 4 years where growth has not been great, and we've constantly sort of invested in the business?

Peter Bains: Let me again open the response to the question. But again, I'll ask Deepak to comment. So how we look at this is the global CRDMO market is large and its growth is robust. This is the sort of backdrop to the market opportunity. And that splits into large molecules, which is the fastest-growing component of the global market at around 12% CAGR out to 2030. Discovery services around 10% and small molecules at around 8%, but small molecules is over half the global market for CRDMOs.

Syngene is strategically positioning itself to build on its existing strengths to play into each of those market opportunities. So, we have a very strong discovery service platform with a very wide global customer base and a very extensive integrated service offering, which we think is well positioned to play into the growth opportunities presented there.

And the dynamics of those growth opportunities will include what -- where, for example, China Plus One and the redistribution of supply chains in big pharma and midsized pharma evolve, but we're very well positioned there.

And we continue to expand both capacities and capabilities in an evolutionary fashion to build on our strengths and to extend our capabilities, for example, into new high-growth modality areas like antibody drug conjugates and cell therapy, where we have already established good footholds there based on our inherent capabilities from which we think we have good platforms for high levels of growth going forward.

If we look at large molecules where we already have strength in monoclonal antibodies, quite clearly, Syngene has made strategic investments in capacity to enable us to grow into that segment of the global market, which is the fastest growing.

So, with the acquisition of the large molecule facility in Unit 3 and the acquisition of the Baltimore Biologics facility, we now have 10,000 liters of biomanufacturing single-use reactor capacity. And as Deepak has described, we're bringing those on stream during 2026 with a clear view that we will be able to accelerate the growth that we achieve in 2026 through into '27 and beyond, playing into that fastest-growing market segment.

And in small molecules, with our capacities and capabilities, while we have had setbacks, and I described those in my opening remarks, we are clearly seeing in the second half of '25, a buildup across both development and commercial manufacturing, a buildup of pipeline and visibility of pipeline where we believe with a high degree of confidence with this visibility that we'll see acceleration there.

And that will both improve capacity utilization in our small molecule facilities, including Mangalore and will feed into that underlying early teens outlook that we've expressed, which is broad-based. We're expecting that early teens growth on the underlying basis in '26 to be across our small molecules, our large molecules and our discovery services. And those will then play into your -- into the frame of your question into 2027.

Chirag Dagli: So if I -- to kind of get a little more clarity around this mid-teens, if I take the FY '24 base and grow it by mid-teens over the next 3 years is how we should think about sustainable growth over the next few years for you that normalizes the inventory buildup and so on and so forth.

Deepak Jain: So, the way we've guided for this is you look at FY '25 and see the growth rate that's inherent in our businesses, right, both the discovery and the manufacturing services. And we've seen a trajectory of growth coming in the second half of this year. We're going to see the momentum build up for the next year. To the question that you had on capex as well and how we're thinking about '27, for sure, FY '27, we will come at the appropriate time and guide on FY '27.

But the way to think about capex right now is also to look into the fact that we've gone ahead and made investments into areas where we believe there's potential for growth and more importantly, how the clients want to look at servicing this growth. If you look at -- we spoke about automation in the DMPK modality that we have, right, or the structure that we have -- and that automation helps bring efficiency, etcetera.

So we will continue to do about -- we've done historically about 50-odd percent that we said this year. We're expecting the capex investments to be about in the 50% range in the Discovery Services because that's where we want to focus on. It's the largest part of our business. If you look at how we've focused on large molecules, large molecule investments have been in the range of 25%. Incrementally, we've also made investments into capacity.

We will continue to look at that as well. And the whole capex investments does not ignore the fact that we're getting into digitization. We're improving our infrastructure in the back end to be sure that we are ready for the growth that's coming in. Very broadly put, one should think about us trying to get to about a 1x asset turnover on the investments that we've made.

Chirag Dagli: Understood. This is helpful. Just the last bit, if I can. In terms of Unit 3, do we have firm orders on utilization of Unit 3? Just how should we think about the scale up through the next 4 quarters as far as Unit 3 is concerned as it comes on stream in the first quarter?

Deepak Jain: I think we see a good buildup of pipeline, as Peter alluded to across, right. And the way we look at it is utilization, we don't break it down into specific facilities for us. We look at utilization in total. And we feel comfortable, continue to improve asset utilization and in a midterm to long -- midterm, actually, get to something like a 1x asset turn here.

Moderator: Next question is from the line of Shyam Srinivasan from Goldman Sachs.

Shyam Srinivasan: Just the first one is on the CRO, the research services bit. I think you called it out at 61% of revenues. Last time I saw the fact sheet, it was -- last year was 60%. So maybe you could just clarify those numbers as just a data point. But just double-clicking into this, I just want to know how dedicated centers have done? And what is that salience in terms of either percentage? And the non-dedicated part or the rest of the CRO business, how has that trended for fiscal '25?

Deepak Jain: So as we spoke about it, we look at research services, right, for ourselves. Research services includes discovery services, includes dedicated -- dedicated is a very, very stable business, and we expect to continue in that direction.

It's a long-term relationship and a partnership that we've built over more than 2 decades, right, with clients. And therefore, that's a steady-state business, and that's how we should look at it. We said the research services in total has grown at about 2%, and that's the way one should look

at it. So stable dedicated centers. Research Services, which is almost 60% of our business has grown about 2%.

Shyam Srinivasan: Yes. So Deepak, the issue is dedicated centers keep growing. We have grown totally CRO at 2%, which means the rest of the business actually declined. I don't know. I'm just trying to guess, right, looking out the way -- if you're not telling me that?

Deepak Jain: Yes, sure. I understand where your question is. I mean that's why I'm saying dedicated centers typically are a stable growth. They don't see a significant growth. They are a steady-state business for us. They do see very, very minor growth. The growth comes in the rest of the businesses, which is the Discovery Services.

Also just from an FY '25 standpoint, what we had always guided that it will be a year of 2 halves, which was the first half will see a decline as the biotech funding was in a state of recovery, and that recovery started coming in, in the second half.

And second half started seeing the growth coming through. So if you look at a combined full year growth, you will see a growth moderated. However, if you see the year in 2 halves, you will see a stable dedicated center business, and you will see a moderated growth driven by a first half of slowdown, but a second half of pickup.

Shyam Srinivasan: Yes. So since you're not telling me exactly, the second half growth for the non-dedicated, could it be a double-digit number? I'm trying to imply it because I can't see it in the numbers?

Deepak Jain: Second half, for sure. Its growth for sure has been in the double digits for the base Discovery business, the dedicated center has been stable for sure.

Peter Bains: So let me add to that because I think Deepak provided the clear framework as to how to look at this. Dedicated centers are stable and relatively flat. And in the Discovery Services, as we described at the beginning of the year in guidance, we would see degrowth in Discovery in the first half and recovery in the second half.

That story has played out entirely consistently where we saw Q3 growth, and now we've seen sequential Q4 growth. And as we exit 2025, Discovery Services, non-dedicated centers is in that sort of double-digit growth trajectory on exit. And it's that exit momentum that underpins the confidence in our framework in guiding that the underlying growth in 2026 will be in the early teens.

And that as I link that back to my answers to previous question, is underpinned by the existing businesses that we carry over from '25 to '26 and the clear visibility and potential of a stronger pipeline of pilot projects that will carry over that we would look to convert at the high rate of conversion that we've delivered in '25 to add into that growth in '26.

Shyam Srinivasan: Very helpful. Peter, my second question is just on the small molecule bit, right? Salience has come down from 16 to 12, if I get the numbers right. So, it's about USD50 million, I think, right now at small molecule CDMO, declined 24%. So one, I think the opening remarks talked about a positive outlook as we ended the year. I just wanted to get some details around that. And the

24% decline was attributed to setbacks in clinical programs, I get it, but there was also lower demand. So if you could just double-click on that, please.

Peter Bains: Sure. Let me again take that one to start off with and Deepak can add any further commentary. I think you have the picture pretty clearly right in the size and the growth. And as I said in my opening remarks, it's been a mixed year. And in the first half of the year, particularly, we had step-backs and those step-backs were related to client clinical programs that finished. I mean that's the risk of clinical development, and we take that as a step-back.

We've also had reduced annual commercial manufacturing volume, which is simply related to our clients' performance in the market. Products don't always stay at the same volume. They go up, they also come down, and we move with those ebbs and flows. So that's the picture that underpins this.

But you have to layer on top of that now the activity in the second half of the year in which, as I described, we've now added a series of new clients in terms of pipeline fill, and that pipeline fill is across both development and manufacturing. And that is what underpins the confidence to a step-up in performance in our small molecule group and a step-up in utilization of our facilities, and that, of course, includes Mangalore.

And that then underpins the element of mid-teen growth in our manufacturing services that we've expressed at the beginning of this call. So that's the picture there. I think you have it right. I hope that's helped clarify.

Shyam Srinivasan: Great. And last data point, number of scientists that we have end of the year, fiscal '25 and how has that moved over the year? And if you could give us -- have you seen any net additions, if I can use the word in terms of scientists?

Peter Bains: So the scientific headcount is just over 5,500. It's pretty stable in comparison with FY '24, hasn't been any significant movement in the number of scientists.

Shyam Srinivasan: And sorry, Peter, last question. Attrition is equal to additions, is it? Is that why -- that's how it is?

Deepak Jain: Yes, in some way, that's true. Attrition will always -- and that's why we come to a number of flat. But also the fact that we've improved efficiencies, etcetera, that we've spoken of also helps to keep the number that's stable as well despite showing some growth.

Moderator: Next question is from the line of Madhav from Fidelity Investments.

Madhav: I wanted to understand, if I look at Syngene's margins over the last, let's say, 5 years or 6 years, adjusted for the forex volatility, which happens, which is not in your control anyway, our base margins are somewhere in the 29% to 30% EBITDA margin range. FY '26, I guess I completely understand we have the new facilities coming in, which is impacting the initial opex.

What I wanted to understand is if we think 3, 4 years out, once these newer facilities hopefully ramp up and the research services business has its steady growth, do the margins come back to

the historical trajectory where Syngene has maintained over a long period of time? Should we go back to the 29%, 30% range in a 3-, 4 year view is my question?

Peter Bains: So again, I'll give an opening response. Deepak can clarify. The answer to that question is over simplistically, but I'll build on it, is it will depend on the evolution of the mix of the businesses. As we underpin the growth that we've described in '26 and then, of course, further on, which is where your question is pointing, we clearly have opportunities in the large molecule space, the discovery space and the small molecule space.

Now the margins in those businesses are not all consistent. The higher margins in the biologics component compared with the large molecules compared with the small molecules. And in Discovery Services, it will depend on the evolution of our mix of businesses through our extensive integrated capability platform.

So I think that it's clear that because of bringing on stream the 2 facilities in '26, we're going to see operating EBITDA margins come to that mid-20s range. We can look to see those margins improve over time, but it will depend on the mix of businesses as we grow forward. And as we do that, we will have better visibility and we'll communicate accordingly.

Deepak Jain: Just to put another color on it also is the fact that I think, yes, it's the current mid-20s EBITDA margin that we guided to has an impact on account of the new facilities that we've got on board. Obviously, as the facilities ramp up, we should see some improvement in margins.

To help you in your models, I would say you should think about in the mid- to long term, somewhere in the mid- to high 20s is probably a trajectory we should follow, but that also will need to be colored in the view of saying how the business evolves with the mix and the speed of ramp-up of the facilities that we have.

Madhav: So if I got the pecking order right, biologics is amongst the higher-margin businesses for us, small molecules is a bit lower. And for research services, it depends on the kind of projects that we do. Is that the right way to think about it?

Deepak Jain: That's quite fair as an assumption.

Madhav: Okay. Okay. Understood. Understood. And on the ramp-up time line for the Unit 3 and the Baltimore facility, if I understand right, the guidance that we've given so far is that over a 3- to 5-year period, we should expect to ramp it up to 1x fixed asset turn. Is that right? Did I get that right?

Deepak Jain: That's what we've always maintained that in a 3- to 5-year time horizon, our endeavor is to get to a 1x asset turnover.

Madhav: And is that the peak utilization of these kind of facilities usually?

Deepak Jain: I think ideal of any asset base in a manufacturing facility is to get to a 1x turnover. If we can improve the efficiencies, obviously, we would want to, but it also depends upon the mix of

projects that you get and the structure in which those projects are picked. So I would just, from a modeling standpoint, keep it at 1. So it just helps the whole structure as things evolve.

Moderator: Next question is from the line of Damayanti Kerai from HSBC.

Damayanti Kerai: Again, coming back to the facility, I just want to understand this Baltimore facility, apart from providing you footprint in the U.S. market, how different this will be from the Unit 3 facilities? Because if I understand correctly, both are biologics CDMOs. So how different is Baltimore facility compared to your Unit 3? And second part of the question is, do you already have some visibility on the project pipeline for Baltimore unit?

Peter Bains: So let me again take that to start with, and I'll break it down. So as well as giving us that very important strategic footprint and getting closer to the U.S. customer market. It adds to the capacity and the flexibility of utilization of that capacity for Syngene more globally. Both the facilities are relatively state-of-the-art and both the facilities have operational flexibility.

Their multi-suite capabilities. That's attractive because it gives us optionality in terms of customer opportunity. And we will seek to maximize that optionality as we move forward. With regard to the Baltimore Biologics facility, we have a number of ongoing discussions, which obviously we're hoping to mature into commercial opportunities.

As I think we've said right upfront that the first half of fiscal '26 for Baltimore will be about completing integration, installation and preparation. But in the second half, we are looking to see early commercialization through clinical supply programs. But we're definitely planning to see the Baltimore facility in the second half of the year begin commercial operations.

Damayanti Kerai: Sure. And similarly...

Deepak Jain: Let me just add some color to it as well, right. So the 2 units in Unit 3 that we have in India and the new facility that we acquired in Baltimore, Baltimore also has capacities of 4,000 liters as well as in reactor capacities of 4,000 liters. That also gives us an ability to take in larger batch sizes as well. Combined, we've always mentioned that the combined facility has about 50,000 kilometers of capacity.

The other aspect that we should also recognize is the fact that the facility in U.S. allows us to get a USDA approval, which is the U.S. Department of Agriculture, apart from the USDA approval that we have for -- sorry, for the Unit 3 and the Baltimore facility. So there are some inherent positives strategically that we get from the Baltimore facilities.

But the fact that it has larger reactors as well and the fact that it allows us to have an opening into the USDA regulation as well. And Unit 3 allows us to get the advantages of a varied capacity structure that we have here as well.

Damayanti Kerai: Sure. That's helpful. Deepak, if you can explain what has happened in this inventory correction level at clients because that's something you have repeatedly mentioned and it's not very clear. So if you can elaborate what has happened and then I think your guidance, etcetera, is based on adjusting for that turn.

Deepak Jain: If you allow me a minute to be able to give you a context of how I think about it as well, right. And then maybe you'll be able to take -- I come from automotive FMCG background as well. And if you think about it, right, every time you launch a new product, you have to fill the pipeline into the channel, right? And that's not unique to only the FMCG or the automotive. It's across any business line, any sector that you get into.

So there will always be -- every time you launch a new product, there will always be a pipeline that you have to build in your manufacturing capacity, right? So you build a pipeline to be able to fill the entire channel before the demand really starts showing up. This is exactly that happens in whether it's FMCG, whether it's automotive or now in the segment that we are operating. In the large molecules, that's what happened.

When the product got launched, we went ahead and not just improve our efficiencies into the manufacturing, we were also catering to a need to build up a certain pipeline that was needed every time you get into a prelaunch launch stage. what's happened now that it's almost 2.5 years, there is that element of pipeline that was required is sorted out.

Now we are in a more steady state of the particular product. And therefore, from an early build-up of volumes that we saw, we are getting to a steady state. And that's the delta that's happening on account of inventory change that we mentioned in our guidance when we spoke about it. That is leading us for tapering down the underlying versus the reported numbers. That's the difference largely.

Moderator: Next question is from the line of Chintan Shah from JM Financial Family Office.

Chintan Shah: I just had one question. So, we've been reading a lot about that generative AI is -- there are a lot of initiatives being taking place, especially focusing on discovery part and the development pipeline where there have been talks at least there has been news that they want to reduce the time lines, etcetera. So putting that in context, I just wanted to get your thoughts basically, how do you see this because since CRO is a very big part of our business, is this a big risk for us? Or do you think there is an opportunity? And how are we preparing ourselves for this? That's my question.

Peter Bains: Thank you for the question. And I guess the big picture, we all recognize that AI has enormous potential to change the way drug discovery and development may evolve. It's early days yet. There isn't a drug on the marketplace that's being designed by AI yet. That I'm sure will come, whether that's 5 years, 10 years away is another question.

But the way we're looking at AI is it will be strategically both important and fundamental that we engage that and we look to develop a strategy in which we deploy AI to optimize and maximize our effectiveness, our efficiency, our competitive offering to our clients.

We already have a wide-ranging set of initiatives across the discovery continuum and into other areas of our business. And we are looking at evolving that with partners, evolving it with collaborations and evolving it internally ourselves where we think we can develop AI to make a difference.

So I think what I want to say in response to your question is we align to the view that AI is going to be strategically fundamental to the evolution of discovery services, and we are adapting a strategy with that mindset. And are already engaged across multiple fronts and are building on that basis.

Chintan Shah: Got it. That's well understood. Just one follow-up on this. Do we at all see a risk that could lead to lower outsourcing of these services? Do you foresee that risk at all because of AI?

Peter Bains: No. I think the answer there is clearly no. I mean AI will become -- it is already a tool and an important one. I can't see a future where its relevance will not increase. But with the inherent complexity across the entire discovery development continuum, I don't think it's going to substitute at all for the capabilities that are required to put all that together. So I don't think it will have an impact where it will have any material impact on the wider structure of the contract service model.

Deepak Jain: I think the only piece I want to add and fact that -- sorry, just to add in a bit of a color as well, and this is how I think about it. As AI evolves, right, the key is, as Peter said, we're keeping a good watch on how it's evolving and keeping ourselves in sync with how the models are evolving, right? But it's early stage. We don't want to be at a position where we're saying we are going ahead and disrupting technology. Technology is evolving, we are going ahead and ensuring that we are keeping ourselves up to speed with all of that.

The other way also to look at it from a modeling standpoint is as -- let's assume I'm looking at a few years forward as AI evolves, yes, there will be a speed and efficiency that's going to build into the entire drug discovery value chain. But the value chain itself, I believe, will go through a shift as we've seen in other technology structures that have happened that you may see an efficiency buildup, but the cost of leak, the price for that efficiency buildup will be different.

And therefore, there could be a potential of improvement in project pricing that we could develop out of that. So 2 points. One, I'm not sure there's going to be a significant shift right now. If I look at it, that if AI comes in, then should we think about it moving the momentum away from the CRDMO segment. I think that may not happen. It's just how we keep ourselves up to speed, aligned to the change in technology.

And you've seen the way we've operated, right? We've gone ahead and invested into technology at every stage in time at an appropriate time to take the advantage of that. We believe the pricing structure that will evolve will commensurate to the technology investments that are required to be able to get that done.

Moderator: Next question is from the line of Anandha Padmanabhan from PGIM India.

Anandha Padmanabhan: My question was with regard to the inventory adjustment in the large molecule that you mentioned. So how should we look at it? Is that from FY '26 should be a year where the supplies will normalize on a steady-state basis, and this is something that will continue in the coming years? And a couple of -- in one of the earlier participant question, you mentioned that you are expecting the growth on the commercial manufacturing side to continue to accelerate in the coming years.

So are you building in -- if I look at '27 or '28, are you expecting that particular molecule per se to accelerate as well? Or you expect that it more a steady-state basis and it will be new businesses that will actually -- or new opportunities in the large molecule that will accelerate the growth?

Deepak Jain: Okay. Two parts of your question. One, do we see a moderation in the large molecule inventory because of the inventory correction, Will it get to a steady state? Yes, exactly what we're saying. There was a ramp-up. We helped build a funnel that was required for the client for the purposes of a new product, prelaunch, launch stages. And therefore, in go forward, will it moderate to a steady state of what the demand is? And I believe that's how it should be, and that's how it will play out.

The second part is how do we expect growth? Yes, the growth will be driven not just by the one client in large molecules. It will be grown, again, broad-based within large molecules of having various other PRD programs and new clients coming in. The growth, therefore, underpins not just the moderation that's coming on account of one client, but also the expansion of the client base and the projects that we get.

Anandha Padmanabhan: Okay. The second question from my end is that in the recent, say, recent past couple of 1 or 2 years, we have seen multiple news flows of a couple of your key clients on the dedicated center side, establishing their own captives in India. What is the overlap of activities that those clients do in their captives vis-a-vis the activities that they do with Syngene? And do you see any risk that in the future years, they might actually try to in-source those activities into their own captives rather than giving it to Syngene?

Peter Bains: Well, I think there are several ways to respond to that. Global capability centers in India have been building up. They have been generally activities that are complementary to the activities that we are conducting. And in that sense, this is positive. I think if the wider ecosystem of biotechnology builds in India, that's a good thing for our industry as more activity, more focus will come into India.

Syngene is obviously well placed to look at the complementary capture of business around that. Where these global capability centers will evolve to over time, it remains a matter of speculation. I don't want to draw any conclusions on where they'll go, but that will play out in time. And we'll adapt to that as and if it happens.

But more broadly speaking, I think that the opportunities here can outweigh any risks as the wider biotechnology ecosystem builds from a very small position in India to a much bigger position. That will be a good thing for the company seeking to support biotechnology and biopharmaceuticals like Syngene.

Moderator: Next question is from the line of Tushar Manudhane from Motilal Oswal.

Tushar Manudhane: Just while I might have missed the numbers, I was just asking that what would be the operational cost for the biologics facility on an annual basis. And given that we'll have to have compliance in place, so effectively, how to think about the increase in the cost over the next 2 to 3 years? And likewise, the U.S. facility, if you could say?

Deepak Jain: So the way to look at it is, as I said, majority of the delta that I'm showing in the EBITDA is coming on account of the 2 new facilities that we are adding, right? And therefore, there will be an element of operating cost that's going to come and make a play as we see how the facilities ramp up, as we start integrating that facility. So we bought this in March.

We are in the process of taking the integration forward for the U.S. facility as well as the Stelis facility is now almost up and done, we should start seeing volume ramp-up happening across that as well. So I'm not being able to give you a number per se right now. But the way to think about is majority of the EBITDA delta that we are guiding towards is coming on account of the operational cost that's going in for the 2 new facilities that will be up and come.

Tushar Manudhane: Got it. So directionally, safe to assume that there will be further scale up in this cost maybe in the year 2, which is like FY '27 before we think of achieving EBITDA breakeven?

Deepak Jain: So the way to think about this is twofold. When we spoke about the Century acquisition -- sorry, the Baltimore acquisition that we have, that had an acquisition cost of $36 million approximately, and we said we will spend about $50 million to get the facility up and running.

So there is obviously an element of incremental cost factored in, which is also guided into our capex as well. What we had got for our Unit 3, we've built as -- in fact, in the commentary around the spend of this year, FY '25, we've also commented upon the fact that the Unit 3 integration capex requirement is already there.

Once these 2 units come into operations, obviously, there will be a BAU capex that will be required to operationalize, maintain and take the facility forward. I wouldn't expect anything out of the ordinary to come in and something that you all need to model in after the units have become operational.

So it will be business as usual repair and maintenance kind of capex that will be required or anything incremental on account of technology shifts that we may need to make or want to make. Those will be something that I would again consider that as a business as usual.

Moderator: Thank you very much. Participants that will be the last question. I'll now hand it back to Ms. Nandini Agarwal: for closing comments.

Nandini Agarwal: Yes. Thank you for joining today's call, everybody. If you have any questions, you can get in touch with us. Thank you, and have a good day.

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