

Syngene

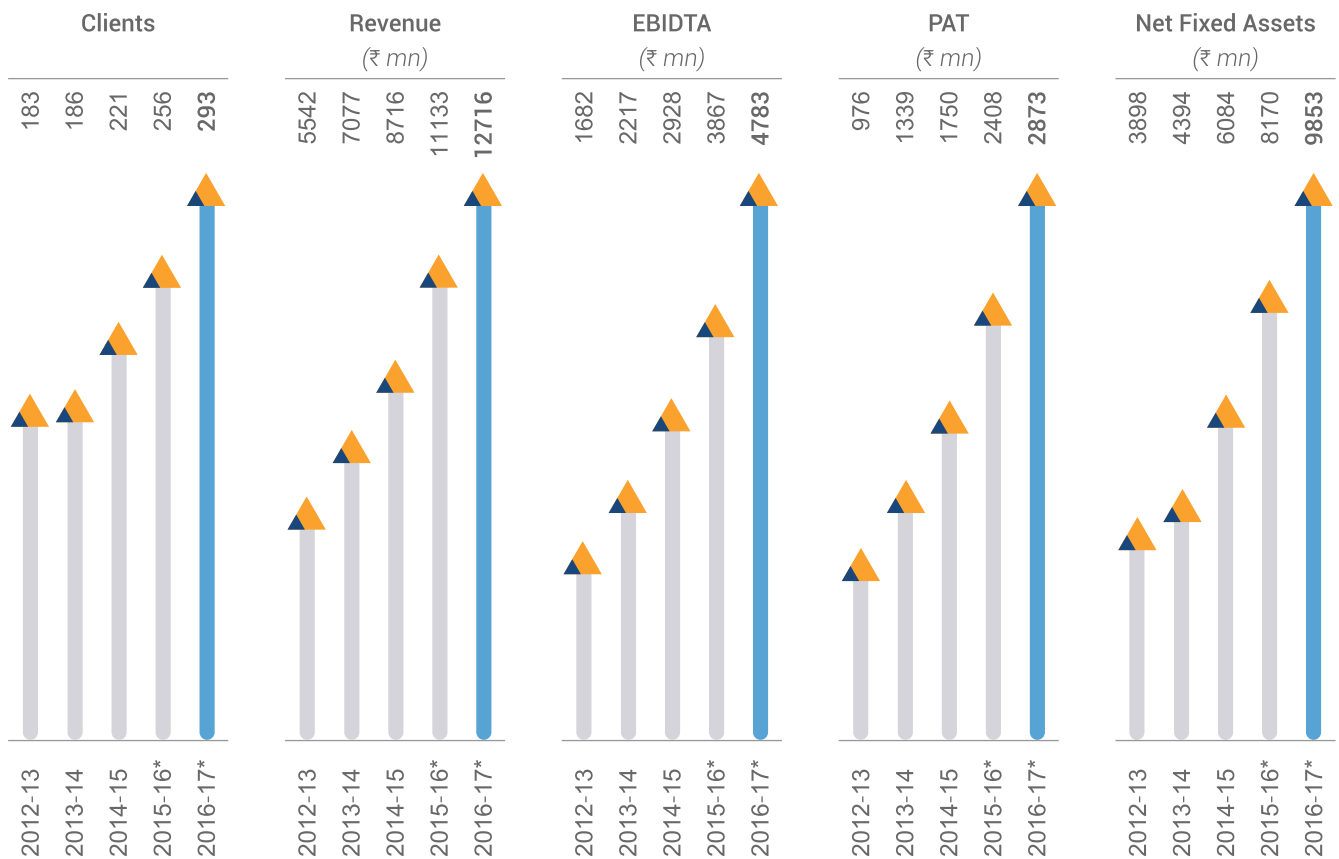

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24th Annual General Meeting July 28th, 2017





Relentlessly Enhancing Multi-Year Value



* FY2015-16 & FY2016-17 figures are as per Ind AS





Kiran Mazumdar Shaw, Managing Director

Dear Share holders

A warm welcome to all of you to the 24th Annual General Meeting of Syngene International Ltd. FY 2017 has been a successful and eventful year for Syngene. During the year, we crossed some significant milestones

- Our scientist-base crossed the 3,000 mark, making it one of the largest discovery science teams anywhere in the world
- Our stock price saw an appreciation of 35% during the year
- We were ranked as the most dynamic enterprise of the year at the 9th Annual Pharma Leadership Summit
- Our client base continued to grow, adding a further 37 clients in the year, taking the overall total to 293.

All these achievements not only strengthen our future growth prospects but are a reflection of the hard work and talent that employees show every day, across the company.

That said, the year hasn't been without its challenges; the most noticeable of these being the fire incident that severely damaged the S2 facility in December 2016. While we are all thankful that no-one was hurt during this incident, it has had a negative effect on the rate of growth for the company and I know Jonathan and the management team are very focused on ensuring that any lessons that need to be learnt, are learnt, as well as making concerted efforts to drive the business back to a higher level of growth.

Complexities of R&D and the Evolving Role of CROs

Globally R&D investments by the life sciences industry are seeing an upward trend. R&D investments by the global pharmaceutical and biotechnology companies is expected to increase at a CAGR of 2.8% from USD 150 Bn in 2015 to an estimated USD 182 Bn by 2022 according to a report by Evaluate Pharma.

Despite these increasing levels of investment, the industry is also faced with increasing complexities of conducting R&D programs. These complexities are primarily due to factors such as larger clinical trial sizes, declining success rates for new drug projects, higher attrition rates in late stage development projects, increasing R&D timelines, rising raw material costs as well as increasingly stringent regulatory requirements and the growing need for specialized skills and infrastructure to handle new and advanced technologies.

Given this increasing complexities and challenges around R&D, outsourcing penetration continues to climb globally. The CRO industry has now become an integral and well established part of the life science industry playing a significant and critical role in how they create new products and deliver on the promise of new scientific breakthroughs.

What is distinguishing the very best CRO companies is not just their ability to operate efficiently or to marshal large teams of talented scientists; but in their ability to bring all of these disparate strands together - to manage the complexities of science, to deliver fully integrated scientific programs, to deliver efficiencies of operations and to do all this with great customer focus. It's these things that set the best apart and it's these things that Syngene is gaining a reputation for delivering.





Future Growth Drivers

What is promising is that outsourcing to the CRO industry is not just increasing in size but also diversifying to newer areas. Amongst the various segments of the discovery and development outsourcing services, Discovery biology and biologics are two key segments that holds tremendous potential for growth in the coming years.

According to data published by IQ4I, of the USD 53 Bn CRO market in 2015, around 70% was accounted for by discovery biology and clinical services. The Discovery Biology segment is expected to register annual growth of around 10% per year between 2015-2022. The Biologics segment is expected to grow even faster at a CAGR of around 17% between 2015 and 2022 – this compares with growth in the traditional small molecules segment, of growth of around 6%.

The recent investments that Syngene has made in strengthening its capabilities in both these segments has positioned us favorably to leverage on these growing opportunities. The addition of new capabilities like the Next Generation Sequencing for genomics, transcriptomics and microbiomics work and the acquisition of the bioinformatics services of Strand Life Sciences will see increased traction in our Discovery Biology services. Syngene's upcoming biologics manufacturing facility in Bangalore is nearing completion. Once commissioned, it will significantly boost our biologics manufacturing capacities.

During the year, Syngene continued to develop its clientele by adding new clients as well as expanding the scope of association with its existing clients. The unfortunate fire incident at one of our research facilities has temporarily slowed down our growth momentum; however, we don't expect any material impact on our long term plans and strategies due to this incident.

Management Updates

On the management front, we appointed Dr. Vijay Kuchroo as an Independent Director on the Board of Syngene. Dr. Kuchroo is the Samuel L. Wasserstrom Professor of Neurology at the Harvard Medical School. He is also the Member of the Scientific Advisory Boards of leading global pharmaceutical companies including Pfizer, Novartis and GSK.

Syngene's CEO, Jonathan Hunt, has also been inducted as a Whole-time Director on the Board with effect from 1st May 2017.

Two Board members, Daniel Bradbury and Peter Bains, have resigned from the Board of the company after a distinctive period of association. On behalf of the entire Board and all shareholders, I express my sincere gratitude to them for their invaluable contribution in guiding Syngene in its growth journey.

I express my sincere gratitude to all our shareholders for their continued confidence in our capabilities and their trust in Syngene's differentiated business model. I also take this opportunity to thank all our employees and the leadership team at Syngene for their contribution in Syngene's growth.

As we move ahead into the new fiscal year, we will continue to build on our discovery and development capabilities and to deliver sustained value to our customers and shareholders.

Thank you once again.
Kiran





Jonathan Hunt Director & CEO



Thank you all for joining us today at the 24th Annual General Meeting of Syngene.

Let me begin by giving a broad overview of some of the global trends we see in the industry, talk about Syngene's strong position in accessing those opportunities and follow that by reviewing the company's operational and financial performance for the last year.

Globally, the innovator drug discovery industry continues to see both immense opportunity from scientific innovation but also considerable challenges due to increasing costs, decreasing R&D productivity and the demands of payers and patients worldwide for them to make their new treatments ever more accessible and affordable.

Furthermore, the discovery and development of both small and large molecule drugs is becoming increasingly complex. New technologies often require specialized facilities, specialist equipment and new types of operational and technical expertise. The increasing focus on small-volume, niche and targeted treatments as well as development of biologics or large molecule drugs is also requiring access to unique skills and expertise.

All these factors are creating a strong case for the continued outsourcing of R&D activities and the CRO industry is evolving from being simply a service provider to being a strategic partner.

Changing Expectations from CRO

What drove R&D outsourcing in the early years was increasing pressure to improve R&D productivity and reduce overall costs. While these factors continue to impact the life sciences industry and drive increased outsourcing, the expectations of organizations from their outsourcing partners are fast changing.

Outsourcing is no longer seen solely as a quick-fix to overcome current cost challenges. CROs are increasingly being looked upon as long-term partners who act as an extension of their customers' businesses and provide comprehensive, efficient, responsive and affordable support combined with access to novel and proprietary technologies.

Syngene's dedicated R&D Center business vertical is reflective of this changing expectations. We now play a critical role in meeting the R&D requirements of our clients like BMS, Baxter and Amgen and account for increasing share in their total R&D activities. The outsourcing of R&D activities and the CRO industry is evolving from being simply a service provider to being a strategic partner.


Biologics – the Emerging Force in Medicine

The emergence of new areas of research that require new capabilities and specialist facilities is further boosting the opportunity for R&D outsourcing. Biologics and bioinformatics are two such promising fields.

Large molecules, or biologics, are a particular type of drug whose active ingredients are sourced from living organisms which have been specifically modified to produce the desired molecules. According to a recent report prepared by the Government of India, the global biologics market is expected to be worth around USD 290 Bn by 2020 accounting for an estimated 27% of all drug sales globally.

While biologics can have clear advantages over traditional small molecules, they have their own set of challenges as well.





The molecules can be complex and delicate, and can require careful handling. The key step in the production of a biologic drug is to create a genetically engineered animal cell or microorganism. This requires significant investments in creating specialized skills, technology platforms and infrastructure. Given the already high pressure on the drug industry to reduce costs, pharma and biotech companies are increasingly opting to outsource their biologics development programs to specialized CROs like Syngene.

Given our strong track record in conducting small molecule discovery and development programs, Syngene is well placed to replicate this success across the large molecule discovery and development programs as well.

Bioinformatics – A New Growth Driver

Bioinformatics is another promising growth area that is enabling convergence of biotechnology and information technology to drive advanced research.

Drug discovery generates tremendous volumes of data. All these data need to be scientifically classified and analyzed, often utilizing advanced algorithms to gain a deeper insight into the drug discovery process. Bioinformatics is the computer-assisted data management discipline that helps us analyze, interrogate and make sense of these data.

The Global Bioinformatics market is poised to reach \$14 billion by the end of 2021 growing at a CAGR of almost 19%.

I am happy to say that Syngene, by combining the capabilities we acquired last year from Strand, and with the deep understanding we have of biology and drug discovery is well placed to play a bigger role in this part of the outsourcing market.

Operational Review

Let me now turn to Syngene's operational performance during FY 2016-17.

Overall it was a good year and we delivered a robust performance despite the setback towards the year end due to the fire incident.

The year was particularly good for our dedicated R&D centers vertical with the commissioning of two new dedicated centers – one each for Amgen Inc. and Herbalife Nutrition. With this, we now have five dedicated R&D Centers. We also extended our ongoing contract with Abbott Nutrition R&D Center for one more year.

During the year, we acquired the bioinformatics business of Strand LifeSciences and added this important capability to our services basket. The rapid growth in the demand for bioinformatics services provides a tremendous market opportunity and having the expertise to manage and interpret this data in-house, will be of great value to our clients.

We also commissioned a Viral Testing and Oligonucleotides manufacturing facilities. These are niche service areas with good potential to drive future growth. Syngene's viral testing services will not only augment our biologics service portfolio but will also strengthen our overall position as a “one-stop” solution provider.

The fire incident at one of our facilities had an impact on our Chemistry and Chemical Development businesses. The facility damaged by the fire represented about 10% of our total infrastructure and we expect to take about a year to rebuild and refurbish it. We have successfully relocated the ongoing projects to other facilities on the campus. However, this has consumed nearly all of the 'spare' discovery chemistry lab space that we had built to support growth in FY18.



Financial Highlights

During FY 17, we recorded a revenue growth of 14% from Rs 1,113 Cr to Rs 1,272 Cr - driven by growth in our operational business as well as the benefit we gained from an increase in interest income.

The impact of the fire incident in the third quarter had a bearing on the overall revenue growth during the year. However, I am happy to report that we demonstrated good cost control through the year, which had a positive impact on our operating and profit margins.

This and the higher interest income helped us deliver a healthy growth in our EBIDTA and PAT for the year. EBIDTA grew by 24% to Rs. 478 Cr while PAT grew by 19% to Rs. 287 Cr.

Future Outlook

In the coming year, we will continue to invest in developing new capabilities.

Our bioinformatics services are now well integrated with our other capabilities and service lines and we expect it to start contributing to our growth. Our new biologics manufacturing facility is expected to be operational by mid-FY18, thus strengthening our biologics offering. As you saw from today's announcement of the expansion of our partnership with Amgen, our R&D dedicated center model continues to gain traction with clients

While there will be, some slowness in the discovery chemistry business until we have rebuilt the S2 facility, we expect continued strong growth in our discovery biology business. With the commissioning of the new formulation facility, we also expect to see continued growth in this segment as well.

The upcoming Mangalore manufacturing facility is proceeding to plan and the construction is expected to commence shortly. This facility is scheduled to be commissioned by FY19 and will significantly bolster our manufacturing capabilities.

In the closing, I would like to thank all our clients for their trust and confidence in our capabilities and giving us a chance to be their partner.

I would also like to thank all our employees who have worked so diligently to make Syngene one of Asia's leading contract research organizations and of course, let me end by also thanking all our shareholders for their continued support.

Thank you,
Jonathan



Syngene

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