Syngene International’s Q1 FY 2022 Conference Call

July 21, 2021

**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's First Quarter FY'2022 financial results conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Divya Dhawan from EY. Thank you and over to you ma'am.

**Divya Dhawan:** Thank you, Lizzan and good afternoon to everyone. Thank you for joining us on this call to discuss Syngene's Q1 FY 2022 performance. To discuss the financial and business performance for the first quarter, we have on this call today Mr. Jonathan Hunt -- Syngene's M.D. and Chief Executive Officer; Mr. Sibaji Biswas -- Chief Financial Officer; and Dr. Mahesh Bhalgat -- Chief Operating Officer. After the opening remarks, the team 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 made available over the next few days and the transcript will be subsequently available.

With this, I will now turn the call over to the Managing Director and Chief Executive Officer – Mr. Jonathan Hunt. Over to you sir.

Jonathan Hunt:

Thank you and good afternoon everyone and thank you for joining this Earnings Call to discuss Syngene's First Quarter Results for FY'2022.

I'll start with my remarks with a quick overview of the key financials, before getting into the Operational Highlights of the quarter. After that, I'll hand over to Sibaji, as usual, to give more details on the financial performance for the quarter.

Overall, it's been a good quarter; we made a strong start to the new financial year. Reported revenue from operations grew 41% to Rs.5.9 billion or Rs 594 crores. For the sake of transparency, let me remind you that the high growth rate in the quarter not only represents really good underlying performance but it is also boosted by two factors, the comparison with the flat first quarter last year, I'm sure you'll recall that our operations were temporarily
suspended during the initial days of the national lockdown and that impacted the first quarter financial results last year; and then the second factor is a one-off spike in demand this year for the COVID-19 treatment Remdesivir that we manufacture under a voluntary license with Gilead. This apart, these results reflect good progress right across the business. Our operations continued to be near normal levels despite the challenges of the second wave of the pandemic and there was no negative impact on client projects. We maintain good financial discipline while continuing to invest in reinforcing the foundations of the business, digitization of core processes to reduce human intervention and increase speed as well as investing in IT system security to continue to upgrade protection of our systems and data.

During this quarter, there were higher material costs and they really reflect our decision to hold higher levels of raw material inventory as we stock up critical raw materials to fulfill our Remdesivir commitments and to mitigate any potential supply chain disruption due to the second wave.

EBITDA for the quarter was up 27% to Rs.1.7 billion or Rs.177 crores while PAT was up 33% at 773 million or Rs.77 crores. I'll leave it to Sibaji to cover more details on the financial performance of the quarter in a moment.

Let me turn to the Operational Highlights of the quarter:

During the quarter, we continue to recruit new scientists into BBRC, our dedicated research center with Bristol Myers Squibb and that is part of the
expansion agreement that we executed last quarter. We've also started the process for setting up a new 50,000 square foot dedicated facility for BMS as part of that expansion agreement and that facility is expected to be operational by the fourth quarter.

Our Manufacturing Services division, including Mangalore API facility, continues to build momentum. The Mangalore facility successfully completed ISO 9001 certification audit. We are on track to obtain US FDA approval, I think, in the next two years.

Biologics business has signed a five-year agreement with IAVI, the US-based non-profit scientific research organization and that's to manufacture three anti-HIV monoclonal antibodies for use in phase-I and phase-II clinical trials. As the development and clinical supplies manufacturing partner, Syngene will provide an integrated solution including CGMP manufacturing of the drug substance and drug product. This partnership will strengthen Syngene's position as a large molecule development and manufacturing service provider in the anti-HIV and other chronic disease space.

Now the pandemic's still with us and throughout the quarter we continue to follow all the COVID safety protocols that we've put in place during the first lockdown. As a result, we were able to continue operations as normal and following government guidance, we also rolled out a voluntary vaccination
drive for our employees and their families and I'm delighted to say more than 90% of them are now vaccinated.

Our scientists continue to support the fight against the coronavirus by using their expertise in various scientific domains, for example, recently, our scientists have generated several variants of the spike protein, including the alpha, beta and delta variants. The spike protein on the surface of the virus contributes to the virus being able to infect host cells and despite protein variants developed by our scientists, we will enable studies to determine if the vaccines we have are effective in protecting against infection from these different variants. So, it's an important bit of scientific enablement to help the vaccine manufacturers keep pace with the evolution of the virus.

In closing, I'm pleased to report strong start to the year and believe that it sets us on track to deliver our annual guidance.

So, with that let me hand over to Sibaji to give you a little more detail on the Financials in the quarter.

Sibaji Biswas: Thank you, Jonathan and a very good afternoon to you all. I'm happy to take you through our results for the first quarter ended 30th of June 2021 with comments on revenue performance, then I'll take you through the cost management efforts, margins and profitability for the company as a whole, and end with thoughts on outlook for the rest of the year.
This quarter saw the impact of the second wave of COVID-19 in India, while in our client market, we are monitoring the dynamics of reducing restrictions for people and rising case numbers as a result of new variants, mitigated by the impact of vaccination, all things considered, we continue to plan cautiously for the months ahead.

Let me now run you through the financial performance for the quarter, starting with the revenue performance.

Overall performance for the quarter has been good. Revenue from operations increased by 41% for the quarter compared to the previous year, driven by steady performance across all the four divisions.

As Jonathan mentioned, the first quarter of the last financial year was flat on revenue from operations as it was impacted by the temporary shutdown. Even accounting for this prior year effect on a normalized basis the year-on-year growth reflects a steady momentum during the quarter. This was delivered from a combination of existing client commitments, contract expansions and new client additions.

Within Discovery Services, we continue to build our research facilities in Bangalore and Hyderabad. In addition to expanding capacity in Bangalore, we finished the second phase of expansion in Hyderabad during the quarter and now we have close to 300 scientists working out of that facility. With
the strong demand in Discovery Service business, we are confident to move ahead with phase-III expansion in Hyderabad which will expand capacity by a further 200 scientists. And this will be ready in the second half of this financial year.

Development Services, the division that focuses on delivering drug substances and drug products for clinical trials, providing analytical services, and managing clinical trials, showed steady growth year-on-year. We are in the process of completing an Injectable Fill-Finish facility, that will add a new capability to the formulation part of the Development Services business. The facility is expected to go on stream in the second half of this year. This will help us address the drug product requirements of both small molecule and large molecule for early phase clinical supplies on the injectable segment and has a capacity of filling up to 2,000 vials per hour. Syngene already has a clinical and commercial supplies capability for oral doses formulations which can produce up to 30 million tablets per annum.

Manufacturing Services business performed very well during the quarter, driven by good traction in Biologics business and manufacturing of Remdesivir.

With an eye on encouraging growth in Biologics business, we have continued to invest and expand our biologic facilities. A new microbial platform with
500-liter capacity was commissioned recently and we are in the process of adding the fourth 2,000-liter bioreactor to our mammalian biologics facility.

The Mangalore API facility is now qualified and its validation activities have resulted in an approval from the Indian Drug regulatory body. We had early manufacturing activities initiated in Q4 FY’21 and we continue to operate in the current year to ensure the plant is utilized and the fixed costs are, at least, partially recovered. For full capacity utilization of the plant through manufacturing of high value API, the next key milestone is securing regulatory approvals from regulated markets, specifically USFDA and EMA. We have now secured a pathway to trigger an FDA inspection of the facility. This is a process that involves making batches, generating data, doing regulatory filings and going through the inspection leading to approval of the facility. This cycle typically takes 24 months between now and then and we expect occupancy to be relatively modest during this period and grow up to 20% over next two years. This is in line with our plan and we maintain our guidance of 1x asset turnover in five years for the manufacturing facility.

Starting from Q3 of the financial year, we have been manufacturing Remdesivir under a voluntary license from Gilead, principally to support patients in India during the pandemic. As you are aware, the last quarter saw a surge in COVID-19 cases in India and our team work hard to increase the production to meet the increased demand for Remdesivir. Thankfully, we
have seen a decline over the recent weeks in the rate of new COVID-19 infections and in our assessment the distribution chain is now well stocked with Remdesivir.

So, while the quarter's revenue growth has some upside from manufacturing Remdesivir, we do not see this as an opportunity for the long-term, but it is a product we are committed to supply as long as the pandemic continues in India.

Dedicated Centers continue to grow year-on-year due to the addition of capacity for BMS following the announcement last year of the expansion of our relationship.

Our BMS expansion is progressing well and to plan and we have now increased the number of scientists actively engaged in cutting-edge discovery science by 25% out of the total 40% increase in scientists planned under this agreement. We are in the process of expanding the laboratory capacity to support this additional growth.

Moving on to EBITDA margin for the quarter

This was lower at 29% as compared to 32% in the previous year. The underlying EBITDA margin excluding other income was lower by 170 basis points, from 29.5% to 27.8% during this quarter. This was primarily driven by higher material cost in the quarter mostly due to the production of
Remdesivir. For context, raw material cost for Remdesivir during the peak demand was close to 60% of the revenue, much higher than our regular business level of mid-20s, which explains the dilution in margin. The raw material cost as a percentage of revenue moved up from 24% percent in FY'21 to 34.2% in Q1 FY'22, on account of Remdesivir and also due to advanced procurement of raw materials to secure operations in the middle of the pandemic.

Let me now take a moment to explain the movement in other cost lines in the P&L

During the quarter, staff cost increased by Rs.307 million to Rs.1.7 billion or Rs.168 crores as compared to Rs.1.4 billion or Rs. 137 crores in the same period last year, an increase of 21.9%. The increase is on account of three factors: Firstly, recruitment of additional staff in the existing and new facilities that went live over the last 12 months. Currently, we have about 5,500 employees in Syngene against 5,000 employees a year ago. Secondly, annual increments given in line with the market for eligible employees effective from 1st April 2021 also led to some of this increase. Thirdly, with the pandemic continuing, we have seen increased spending towards COVID safety measures like vaccination and testing, that also contributes some of the increase in employment cost. Despite this increase, employment cost to
revenue ratio for the quarter has improved from last year, mainly driven by stronger revenue growth.

Turning now to other expenses, which comprises of selling expenses, IT cost, maintenance expenditures and other general overheads, they are up by Rs.141 million year-on-year to Rs.656 million compared to same period last year. The rise in these expenses is primarily attributed to new ways of working in the pandemic and towards maintaining necessary health and safety protocols. It is also due to the increased spending on IT-related services as we continue to drive digitization across our business and due to increased maintenance expense due to the expanded asset base.

EBITDA was at Rs.1.7 billion or Rs 177 Crores compared to Rs.1.4 billion or Rs. 140 crores last year, an increase of 27%. Depreciation stands at Rs.747 million, which is a Rs.86 million increase from Rs.661 million in the same period last year. The increase on a year-on-year basis is mainly owing to the new investments made in the last year.

Now talking about tax rate

The effective tax rate, which was at 12% in FY'21, has moved up to 18% in the quarter. FY'21 effective tax rate was benefited on account of re-evaluation of tax position in context of a favorable High Court order and an incremental tax benefit on account of accelerated depreciation from
Mangalore API plant. It may also be noted that Remdesivir was sold in domestic market which attracts full tax rate. Profit after tax was up 33% to Rs.773 million as compared to Rs.580 million in the same period last year, reflecting an overall strong performance for the quarter.

CAPEX spending is on track. During the quarter, we invested Rs.770 million in CAPEX and approved projects to build around 200,000 square feet of additional capacity catering to the requirements of Dedicated Center and Discovery Services.

In the last call, we gave you guidance of mid-teens revenue growth for the current financial year. Overall, demand and operational trends during the quarter were in line with this expectation and this gives us the confidence that we are on track to deliver this guidance for the full year. That said, I reiterate my earlier comment that like everyone else, we continue to track the impact of the delta variant in many parts of the world and we will keep a watchful eye on what remains a challenging pandemic environment.

Thank you and we can open for questions now.

**Moderator:** Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Alankar Garude from Macquarie. Please go ahead.
Alankar Garude: Sir, my first question is, despite a full quarter of Mangalore and higher Remdesivir sales, our overall top line is down 10% sequentially. I understand that fourth quarter is a seasonally strong quarter for us. But just trying to get a sense on Mangalore specifically. Will there be a gradual ramp up towards the 20% utilization which you mentioned or till we get US and Europe approval, or can the sales ramp up here be pretty lumpy in the next two years?

Jonathan Hunt: Good question. I think part of your question you actually provided the answer. So, the sequential drop, I think just reflects the pattern that you've seen. I'm trying to think how many quarters you'd have to go back to find the first quarter that wasn't lower than the fourth quarter in our business or actually to be fair in most of these CRO, CDMOs, there's some sense of seasonality as many of our western clients finish their financial years and they're planning to run into December. So, the first quarter is often lower or maybe always lower for us than the fourth. So, part of your question I think gives the answer that I don't see anything of any great significance in a sequential drop from the fourth quarter to the first quarter. Very happy with the reported growth of 41%, I think it's a very strong quarter. We've done our best to try and disaggregate the moving parts so that you can get a fair assessment of that. It's flattered a little bit by a lower prior year comparison. You've got the one-off of Remdesivir because of the COVID pandemic in this quarter. Strip all of that away, you've still got an underlying business, that's
growing mid-teens in line with our expected guidance for the full year. So, we're hitting our plan and very happy with it. In terms of the way to think about the Mangalore facility, remember, the Mangalore facility is not synonymous with our manufacturing division, our manufacturing business is broader than that, it's got biologics, in the future, I'm sure, it'll have other technologies, cell and gene therapy and so forth. But it's not just Mangalore is the business. I think the way to think about it, where Sibaji was leading you, is we've now got a clear regulatory pathway or a product that gives us the opportunity to trigger FDA inspections and hopefully approvals inside of 24-months between now and then. I'm not sure whether it will be smooth or lumpy to answer your question. I don't know and I don't think it's knowable. If I was modeling it, I'd probably model it as smooth and as a sort of smooth takeoff gradually rising over the next 24 months to 20% utilization, and as Sibaji gave you a total asset turn number of one and you know that we've invested about US$75 million into that site, you can do a quick triangulation into a potential revenue number and you can blend it up towards that over 24-months. But I'll leave that modeling to you as it's more your expertise than mine.

Alankar Garude: My second question is our revenue per employee has been broadly flat since the past three years. How should we look at the medium to long-term revenue productivity for the company and this is in context of the
investments over the past few years as well as potentially higher revenue contribution coming in from Biologics and API in the coming years?

**Jonathan Hunt:** That's a real positive, if you think about it, that means that if revenue per employee is broadly stable, that means we're absorbing price and competitive pressures in the market. We continue to be keeping pace with that. So that's a good thing. I think you're pointing to a more structural issue for your very long-term modeling. I don't know how far you go out but go out five years and beyond. As the proportion of the business that comes from manufacturing increases from nothing historically to something in the future, then that should start to impact that derivative measure of revenue per employee because by their nature, manufacturing businesses have fewer people and more machines simplistically than a Discovery Services business which is almost exclusively about the number of brains and the quality of the brains and, therefore, it's quite linear around that business scaling as you bring more scientists in. By the way, what I'm delighted to be seeing is adding more scientific staff during the quarter over the last year and during the pandemic we've consistently grown, we've been consistently open for business – I think it's a good indicator of the quality of the services that we're delivering. I hopefully that's got to be essence of your question. Yes, you should start to see a change but it will be derivative of how quickly you model or you think that our manufacturing business gets up and running
which is giving you some way of thinking about the small molecule API bit of
the manufacturing division and you can drive it from there.

**Moderator:** We'll move on to the next question that is from the line of Prakash from Axis
Capital. Please go ahead.

**Prakash:** First question is related to the comment made on gradual ramp up in the
manufacturing plant Mangalore and take about 24 months to see the ramp
up. If you could expand a little bit on the comment you made that it is on a
pathway to get regulatory filing and inspection, little more color would help?

**Jonathan Hunt:** The guidance we're trying to give you is how to think about it. I think the
inflection point for any sort of commercial manufacturing site becomes
much more attractive and much more valuable to potential customers when
it's got a good regulatory track record, the starting point for that is your first
inspection and getting your first FDA or EMA or whichever regulatory body
you're looking at approval. You can't trigger that until you've got a product.
We're signaling to you now that we've got at least one program in place that,
will take us up to 24-months to complete and by then we'll be at the point
where the regulators would want to come and inspect it and post that on
the assumption that it's in a successful regulatory inspection, we have an
operating unit than that has even more attractiveness and better credentials
with the client. The other guidance I said the smoothness to be very specific
about my comment. What I actually said was I don't know because it's not
knowable whether it will be smooth or lumpy revenue growth, but if I was modeling it, which is partly where I think the premise of the last question was, we'd probably model it smoothly and blend it up to the 20% utilization that we've suggested might be helpful.

Prakash: Second one is again on the guidance. You talked about mid-teen growth for the overall company. The first quarter itself the 40% top line growth. So, for the remaining nine months, are we not even seeing double digit growth or what are the key risk factors you've baked in to call that kind of conservative guidance?

Jonathan Hunt: I don't see any reason to move off the approach that we took last year, and we said we'll take this year which is to take it one quarter at a time and really have a look at the operating environment. That said, I'm not highlighting a particular concern. We've coped very well as a company over the last year. We closed for a couple of weeks over a year ago while we put in COVID control measures. They've served us very well. Our staff, as you'd expect given the type of workforce we've got, are highly scientifically literate pre-disciplined around things like social distancing and use of PPE. PPE is nothing new to them, they do it as part of their scientific work anyway. Then lastly, in the last quarter, we've been very proud of the progress we've made on rolling out a staff vaccination program. Over 90%-plus of our staff are now vaccinated, very high adoption rates, but again you might predict that given
the scientific literacy of the organization, they understand how vaccines work and the benefits you get from them. So, we've seen a very high pickup of that and that again gives us some resilience. But in the broader economic environment, I don't think any of us really knows whether there'll be a third wave in India or anywhere else in the world. We can see some indicators of rising transmission rates plus various variants emerging and therefore we're not out of the woods yet at a global level, at a national level. It's important we all keep disciplined about good hygiene habits, social distancing and if you haven't had a vaccine, might be a good idea to get one.

**Moderator:** The next question is from the line of Surya Patra from Phillip Capital. Please go ahead.

**Surya Patra:** Sir, regarding the multi-year biologic drug discovery contracts that you have signed during the year, 3DC as well as with IAVI of US, If you can just give some color to that in terms of business potential that you are building in your assessment? And if you can just split your investment into biologic manufacturing and drug discovery, that would be helpful sir.

**Jonathan Hunt:** So, I'll probably spread your question out in parts between myself, Sibaji and Mahesh. If you think a little bit around the sort of allocation of capital where we're investing in the business, where we see opportunities. I go back, just a quick sort of clarification, the 3DC is a discovery focused partnership, it's around offering a broad-based platform of discovery capabilities to them,
very much in line with what is a pretty strong trend across the world in our industry which is clients increasingly looking for multi-dimensional integrated drug discovery solutions, that's a bit of a mouthful but basically it means they want to partner with companies like us, that can do all of it and can add value to that discovery, not only getting the work done but adding intellectual capital, having good ideas about what the science should be, being able to interpret the data that's generated and advise on the next phase of development. So that's really what we're doing with 3DC. If I contrast that with the IAVI contract, I'll let Mahesh tell you a little bit more about that, that's more a development focused, much more around getting the product ready to go into the clinical trials and manufacturing the clinical batches. Maybe Mahesh anything else you'd want to add on IAVI and then Sibaji maybe on the allocation of capital, how you think about it.

Dr. Mahesh Bhalgat: I think on the IAVI, I would further add that, so this is an opportunity for us to really see that there is the non-COVID activity that's going on because the IAVI contract is about developing the process and then supplying the clinical material, conduct trials with three different monoclonal antibodies that are used for HIV.

Surya Patra: But it is still a five-year contract sir since it is three targeted molecule that we are talking about?
Dr. Mahesh Bhalgat: Correct. because we will start with the development activity, after which we will actually make the phase-I, phase-II material, the development activity will be sequential, some of the phase-I, phase-II manufacturing will also be sequential and there's also the component of both drug substance as well as drug product manufacturing. So as you can imagine, doing the process development and biologics in general has long cycle times, doing the process development, doing the analytical development, manufacturing the material, generating stability data, all of that is of course a very extended timeframe which is why the length of the contract received.

Sibaji Biswas: Surya, on the biologics CAPEX, till now we have invested close to $50 million in biologics manufacturing facility and biologic development facility as well. And we continue to invest as I mentioned that we are adding another 2,000-liter capacity over there. So, you would expect to see that increasing by another 15-20% in the year which is part of our CAPEX guidance that we have given.

Surya Patra: Is it possible to split that between discovery and manufacturing sir?

Sibaji Biswas: This is manufacturing what I'm talking about, I haven't spoken discovery in context of biologics, and this is biologics manufacturing.

Surya Patra: If you can quantify what is the discovery?
Jonathan Hunt: Yes, we could quantify it; no, it's not something that we will do and it's going way beyond the disclosures that we've already given.

Surya Patra: You have mentioned in the press release that Syngene has developed or generated various COVID spike proteins. So, if you can just give some idea what is the commercial angle to that?

Jonathan Hunt: Not massive. Don't read the press release that we're telling you about that because we're signaling this is a high-profile potential revenue area, it's not really a comment to go into excel and excel modeling, it's much more around keeping the media in general updated on our contribution to the pandemic and the COVID-19 scientifically. And it's indicating to the vaccine manufacturers that if they need scientific support, we have capability. I think, in general, if I kind of make a broader point, Syngene's business is growing well but our strategy is not to become a COVID-19 century business. But I do think we have, as you know, across the whole of the life sciences industry, a moral obligation to use our skills where we can in a global pandemic. So, it's more in that spirit than it is a heavy hint towards financial analysts to reappraise their valuations of the company.

Moderator: The next question is from the line of Shrikant Akolkar from Asian Market Securities. Please go ahead.
**Shrikant Akolkar:** Just two questions: First one is on Remdesivir and Biologics manufacturing. So, if you can provide what is the contribution during the quarter? And the second question is on the product Odevixibat. So, it has recently received two approvals; one in Europe and in the US. So just wanted to know if we are the supplier of APIs for this product?

**Jonathan Hunt:** Two good questions. I think the first one, you've probably got enough guidance that you could triangulate into it, 41% revenue from operations growth. My comments and Sibaji pointed heavily that the underlying business excluding Remdesivir was growing in the mid-teens. I think you can back calculate, to what the contribution of Remdesivir was. On Odevixibat, that's great news for our client company, Albireo, really delighted for them; they've got both FDA and EMA approval I think in the last week. If you read up about it, you'll see it's a disease area that's got particularly high on that medical need, it's a rare disease orphan drug status disease in children that up until now has had no treatment. So it's a first for them but there's enough in my comments to suggest it's a relatively small opportunity by volume because there aren't very many children, thankfully, that suffer from this disease worldwide but really a great piece of science and very exciting for them and for us because we've played a part along the way scientifically in the discovery stage and in the development one. And that's the premise of your question, yes, we do have an API supply arrangement with them, but as I said it's factored into our guidance and our outlook for the company. So,
I don't see it as an additional inflection point though it is really good news for patients and parents of young children with PFIC. On the biologics manufacturing contribution, we don't traditionally break that out to that level of granularity. I'm not about to change that.

**Shrikant Akolkar:** Any qualitative comment as in, have we seen any improvement now that a lot of global biologic capacities have choked up because of the vaccine manufacturing, so have we seen any greater traction in biologics manufacturing?

**Jonathan Hunt:** I think that's fair. Look, we are seeing good progress across all four of the divisions. There's some strong trends, I think, in the discovery area as you're seeing western markets, where the majority of our customers are, Europe and the US get back to work, get back into the office, their national vaccination programs are running quite well. So, there's a little bit of an uptick there, people trying to catch up on any work that was slow last year. So, I think you're seeing healthy demand in discovery. A similar trend in development may be lagging a little bit and then biologics, you're absolutely right, it's an area where there's a global growing need for demand for capacity and I think we're well positioned to take advantage of that.

**Moderator:** The next question is from the line of Arpit Shah from Stallion Asset. Please go ahead.
Arpit Shah: I just wanted to understand the process from construction to validation, your complete utilization for the Mangalore facility. Broadly if I understand that the timeline is broadly extending to a period of ten years. We announced the plant in FY'17, we completed construction in FY'20 and even our today's comments are suggesting that there's a 24-month validation piece which is going to be required for the plant. And Mr. Sibaji commented that the complete utilization will come in the next five years post the validation, so the timeline probably around 10 years for the plant, right, and even if you see I think it's heavily impacting our ROI series given that we are utilizing our plan completely after a 10-year period for $100 billion investment. Do you think it's a very solid investment for the company?

Jonathan Hunt: Good question. I don't quite get the 10-years on the timeline but most of the parts, I think you describe them accurately the timeline from deciding to put CAPEX into finding land, building it, completing construction, validating the plant. The next two years are not about validation of the plant, they're nothing to do with physical infrastructure. The next two years are about taking one or more products through the development and manufacturing process, to get to the point where it triggers an FDA or EMA regulatory inspection. So, they are a regulatory driven timeline, including an estimate of when a regulator would respond to any application, how long it would take them to process it. So, we've moved beyond the physical into the regulatory. But I think your other question is, strategically the much more
important one, which is over the lifetime of the asset do the management team still expect to make a return beyond the cost of capital for the capital that they put into the Mangalore plant. And the answer to that is, yes. As you know, essentially allocating shareholders capital to any project, the acid test is not your revenue in week one or year one, it's whether or not you create economic value beyond the cost of capital over the lifetime of the program and the asset and that's how businesses are valued and how economic value is created. It's exactly what we expect to happen with the Mangalore facility.

**Arpit Shah:** In some of your earlier comments, the customers of the CRO program and the commercial facility could be mutually exclusive, right, they could be different customers, it's not necessary that customers from development won't be coming to commercialization as well, right?

**Jonathan Hunt:** Correct, it can be both. So, we can have programs that start off in discovery, move into development, then move from development to manufacturing and that would be an idealized end-to-end, fully integrated example. But there's nothing that stops a customer from starting at any one of those intermediate stages or just starting at the end point, which is why we may well find customers that want a second source of manufacturing supply. For example, they want to build in supply chain security by having two manufacturers validated and qualified and regulatory approved and there's
nothing stops and providing the capability is the right one in Mangalore from doing that at any point. The enabler of that and this is again hence the comments earlier. You're much more likely to be successful with that sort of client if you have a plan that already has cleared one or more regulatory approvals particularly FDA and EMA. And once you've got that, your plan becomes much more attractive. Hence, the guidance on we think we've now got a pathway to do that, we think we can do it inside of 24-months and that then means that that whole facility assuming you are getting a positive approval in 24 months’ time becomes that much more attractive to potential clients. Hopefully, the logic of that makes sense.

Arpit Shah: I just wanted to understand that growth, prior to announcing this manufacturing plant, was close to 20%, 25%, in the last two or three years it's been around 8% or 10% kind of broadly, that's what we have seen in the last two or three years. So, is this plant, by any chance, impacting our growth on the normal course of business then were growing at let's say 20%, 25%, are we short on the resources on the CRO opportunity or we've been limited by the opportunity in the industry itself?

Jonathan Hunt: I see them as completely independent. I don't think the fact that our manufacturing engineers have been building a plant in Mangalore has had any impact on the growth in our Discovery, Development, or Dedicated Centers, I think that they're completely disconnected events I could see the
question. As for the growth rate was 20%, well, it was, but I pointed out the revenue was half or less than half of what it was if you go back. So, the absolute dollar growth per year has been reasonably stable if not increasing. To the premise of your question, I don't see it making for the long-term in manufacturing, whether it's biologics or small molecule API manufacturing, I don't see them as impacting or slowing down the rate of growth of the overall business. If anything, prospectively got looking forward from now I think there will be active contributor to our growth and therefore I'm happy to have them as part of the range of services and the corporate strategy.

**Moderator:** The next question is from the line of Rakesh Parekh from JM Financial Services. Please go ahead.

**Rakesh Parekh:** I have a couple of broad questions which I would like to ask, more connected with the long-term opportunity; one, you had mentioned the potential for cell and gene therapies in the longer term and I wanted to understand what would be the timeline for a program like that at Syngene to develop either on the manufacturing side or on the development services side and linked to that, my second question is more on probably the emerging biotech side. I just wanted to understand whether Syngene is working on any CRISPR-based drug development program or do you see that as a long-term opportunity for the company, if you could expand on that I would really welcome that?
Jonathan Hunt: Yeah, super questions. I'll ask Mahesh to comment a little bit on some of the technologies more broadly. On cell and gene therapy, we’re already doing discovery phase work in this area; have been for a number of years with one or more major biotech clients. So that's in the orbit of R&D, the research phase. My comments were more aligned to seeing that grow; It's a technology that's maturing that's becoming much more widespread. In general, what you see in services businesses like ours is that there's a diffusion rate. You think about being on the leading edge technologically. The question I always ask is which leading edge you are talking about. You've got the leading edge academically, blue sky research, new cutting-edge techniques are just being evolved. Your CRISPR question points to that. In recent years that was an academic frontier, diffusing into becoming industrially relevant, our clients are getting comfortable and using that technologies and weaving it into their strategies. There's then often a little bit of a delay as that diffuses into the solutions or services environment. That's not a 100% accurate though sometimes those technologies get adopted in the service environment at the same time as the industry or quicker, so it's not a perfect proxy for it but you do see that sort of diffusion and, in some respects, it's important to not be too early and you don't want to be too late as you adopt these technologies and one of the indicators for me is the point at which I sense that a number of clients are comfortable enough in their own knowledge and capabilities with a particular technology
that they're comfortable partnering, outsourcing, or doing that work outside of their own labs. Few of us are comfortable completely outsourcing something until we really understand it ourselves. So, you do see that diffusion curve. Cell and gene therapy, I think, is one where we're well on with that diffusion. CRISPR is a little bit later lagging. But those are precisely the sort of trends that we look for, we go and engage with our customers with and it's a dialogue around where next for us. Hopefully that's a broader answer, sets the context. Mahesh, you got any specifics you wanted to add?

Dr. Mahesh Bhalgat: The part that I would add is, as you broadly understood, any of these newer technologies we do engage in and that's typically because, as you know, in this industry and especially in drug discovery, drug development areas, clients want us to have familiarity and capabilities to address these newer technologies. So, based on that, it's not unusual for the clients to come in and ask us, can you do work with us on for example as you brought a CRISPR Cas9 technology. So, this is what is where we take pride in making sure we are ready to execute projects on these technologies. The other hot area that's there and I'm sure you're aware of this is protein degradation. So, we're very much in those areas, working with our clients and as Jonathan mentioned, cell and gene therapy. While we are doing some more expansions in that, we're already present in that area in the discovery space. So, use of these latest technologies is really part of the way we work.
Rakesh Parekh: Just to add to that, there's some very good points that you expanded upon, but just to get a sense, some of these technologies and I'm particularly thinking about CRISPR, are they commercially in the long run going to be extremely lucrative because I've heard the cost of developing a lot of these technologies is extremely high and some of the rare diseases that they're targeted for does not justify the kind of scale of development but maybe if it was outsourced to a place like India or the kind of location Syngene is working on, maybe then the opportunity could be larger. I'm just wondering whether that is a possibility in the long run commercially.

Jonathan Hunt: To be honest with you, it's not something I'd give you an answer off the top of my head, I haven't really put it the depth of thought in. I'm very happy to have a follow-up discussion on that at some point though.

Moderator: Ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to Ms. Divya Dhawan for her closing comments.

Divya Dhawan: Thank you, everyone for joining today's call. Hope we have answered all your questions. If there are any further questions, 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: Ladies and gentlemen, on behalf of Syngene International, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.

About Syngene

Syngene International Ltd. (BSE: 539268, NSE: SYNGENE, ISIN: INE398R01022), is an integrated research, development and manufacturing services company serving the global pharmaceutical, biotechnology, nutrition, animal health, consumer goods and specialty chemical sectors. Syngene’s more than 4700 scientists offer both skills and the capacity to deliver great science, robust data management and IP security and quality manufacturing at speed, to improve time-to-market and lower the cost of innovation. With a combination of dedicated research facilities for Amgen, Baxter, Bristol-Myers Squibb and Herbalife, as well as 2 Mn sq. ft of specialist discovery, development and manufacturing facilities, Syngene works with biotech companies pursuing leading-edge science as well as multinationals including GSK and Merck KgaA. Syngene featured in the 2021 list of ‘India’s top 100 wealth creators’ by Fortune India Magazine. For more details, visit https://syngeneintl.com/

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